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Royal Commission on Banking and Finance

THE CANADIAN FEDERATION OF MAYORS
AND MUNICIPALITIES.

Hearings
held at
OTTAWA

Vol.

55

Date.

29 OCT 1962



Official Reporters
J. J. Pethercut and R. J. Young
Toronto, Ont.



Nethercut & Young

Toronto, Ontario

- 6910 -

ROYAL COMMISSION ON BANKING

AND FINANCE

Hearings held at Ottawa,
Ontario, on Monday,
October 29th, 1962.

THE COMMISSION

The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario - Chairman

Mr. W. Thomas Brown, M.B.E.
Investment Dealer
Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E.
Banker
Toronto, Ontario

Mr. Gordon L. Harrold
Agriculturalist
Calgary, Alberta

Mr. Paul H. Leman
Corporation Executive
Montreal, Quebec

* Mr. John C. MacKeen
Corporation Executive
Halifax, Nova Scotia

Dr. W.A. Mackintosh
Vice-Chancellor
Queen's University
Kingston, Ontario

Mr. H.A. Hampson - Secretary

Mr. Gilles Mercure - Joint Secretary

* Absent



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Toronto, Ontario - Chairman

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Mr. H.A. Hampson - Secretary

Mr. Gilles Menard - Joint Secretary

* Absent



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Toronto, Ontario

- 6911 -

THE CHAIRMAN: We will Ottawa, Ontario
Monday, October 29th, 1962.

MR. MONGRAIN: Your Lordship and gentlemen,

At 9.15 the hearing commenced. Mayors of Canada,

I would like to thank you for giving us this
opportunity to express SUBMISSION OF of our municipalities
on the THE CANADIAN FEDERATION OF MAYORS AND, our
local governments. MUNICIPALITIES

With your permission, I will ask our
Executive Director, Mr. George Mooney, to take over
APPEARANCES

since he has had the most to do with this submission
J.A. Mongrain - President
that we are presenting to you this morning.

George S. Mooney - Executive Director

Douglas H. Fullerton, perhaps I should

introduce Eric Beecroft - Director of
Ottawa Bureau

President of the Federation, J.A. Mongrain of
Armand Turpin -

Trois Rivières. To my far right is Mr. Douglas

R.J.P. Dawson -
H. Fullerton, who has been co-opted by the Federation

C.N. Kushner, Q.C. -
to assist in the preparation of certain sections

J.E. Lloyd
of our submission and he is here as an expert on our

J.H. Lowther - Commissioner of
behalf on certain questions pertaining Finance, Ottawa

of bonds and matters related thereto if they should be

asked. Then we have Mr. Eric Beecroft, who is the

Director of our Ottawa Bureau. Then we have Mayor Armand

Turpin of Hull on my immediate right. Then we have

Mayor Mongrain on my left, and then Mayor Dawson

of Mount Royal, Quebec, and then Mayor C.N. Kushner,

Q.C., of West Kildonan, the immediate past president

of the Federation. Then we have Mayor J.E. Lloyd

of Halifax, Nova Scotia, and then Mr. J.H. Lowther,

Commissioner of Finance for the City of Ottawa, who has



Parliament of Canada
Ottawa, Ontario

- 6911 -

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SUBMISSION OF
THE CANADIAN FEDERATION OF MAYORS AND
MUNICIPALITIES

APPEARANCES

- President	J.A. Monaghan
- Executive Director	George S. Mooney
	Douglas H. Fullerton
- Director of Ottawa Bureau	Eric Beecroft
-	Armand Turpin
-	R.J.P. Dawson
-	G.W. Kushner, Q.C.
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- Commissioner of Finance, Ottawa	J.H. Lowther

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1 THE CHAIRMAN: We will now resume.

2 MR. MONGRAIN: Your Lordship and gentlemen,
3 in the name of my colleagues, the mayors of Canada,
4 I would like to thank you for giving us this
5 opportunity to express the views of our municipalities
6 on the relations of banking and finance with our
7 local governments.

8 With your permission, I will ask our
9 Executive Director, Mr. George Mooney, to take over
10 since he has had the most to do with this submission
11 that we are presenting to you this morning.

12 THE CHAIRMAN: Mr. Mooney?

13 MR. MOONEY: My Lord, perhaps I should
14 introduce the group who are before you. There is the
15 President of the Federation, J.A. Mongrain of
16 Trois Riviere. To my far right is Mr. Douglas
17 H. Fullerton, who has been co-opted by the Federation
18 to assist in the preparation of certain sections
19 of our submission and he is here as an expert on our
20 behalf on certain questions pertaining to the marketing
21 of bonds and matters related thereto if they should be
22 asked. Then we have Mr. Eric Beecroft, who is the
23 Director of our Ottawa Bureau. Then we have Mayor Armand
24 Turpin of Hull on my immediate right. Then we have
25 Mayor Mongrain on my left, and then Mayor Dawson
26 of Mount Royal, Quebec, and then Mayor C.N. Kushner,
27 Q.C., of West Kildonan, the immediate past president
28 of the Federation. Then we have Mayor J.E. Lloyd
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30 Commissioner of Finance for the City of Ottawa, who has



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THE CHAIRMAN: Mr. Mooney?

MR. MOONEY: My Lord, perhaps I should

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1 participated in the preparation of the submission
2 and he is also here as an expert witness, particularly
3 on matters pertaining to the procedures and the
4 mechanics. I am George Mooney, the Executive Director.

5 Now, as I understand it, gentlemen, you
6 have ploughed through the submission. It has not
7 been the custom, nor is it our desire unless you should
8 desire us to do so, to review or summarize the
9 submission. We think that it is in fairly good
10 systematic order.

11 We have endeavoured in this submission to
12 place on the record data and points of view pertaining,
13 we believe, to the terms of reference of the Royal
14 Commission on Banking and Finance in so far as
15 the municipal governments of Canada are concerned.

16 We have, we think, pretty well covered
17 the waterfront and I understand that you probably
18 will want to direct some questions to us. I shall
19 endeavour wherever possible to deal with the questions
20 which may be raised, but with your permission I
21 would like the opportunity to call upon others who
22 comprise the Federation group to deal with any
23 specific matters on which I think their information
24 might be more complete and perhaps more informative
25 than mine.

26 THE CHAIRMAN: Are the rural townships
27 part of your organization?

28 MR. MOONEY: Yes, indirectly they are,
29 My Lord. As we have explained in the early part
30 of the submission, the Federation is a national

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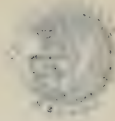
organization of municipal governments and it has two types of members; one type might be described as directly affiliated with municipal governments, and there are the larger cities and towns, and with a cross section of these smaller communities across the country, and then the provincial unions and associations across the country, and it is the provincial unions which embrace within their membership rural and township organizations which are indirectly within the framework of the general activities of the Federation.

THE CHAIRMAN: Very well. Thank you. It is not necessary to make any preliminary statement on the issues raised in your brief. As you have mentioned, we have all read the brief with great interest and I think that most of the members of the Commission will ask questions and most of the major points will emerge in the course of discussion. We will now proceed.

COMMISSIONER HARROLD: Perhaps I should start off with a question on the very first section, and this is the section on recommendations and suggestions on page 2.

Now, section 7 (c), the first part of that particular paragraph; I understand the second part; but I would like a little more explanation as to what is meant by the first part. It says:

"Present federal tax law puts municipalities and other governments at a disadvantage in comparison with corporations



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what is meant by the first part. It says:

"present federal tax law puts

municipalities and other governments at

disadvantage in competition with corporations



1 who can charge bond interest as an
2 expense."

3 And then it says:

4 "This means, in effect, that corporate
5 taxes are reduced by approximately one-half
6 of the interest paid."

7 I am rather at a loss to know just exactly what
8 that means. Can you explain that further?

9 MR. MOONEY: I would like to ask Mr.
10 Fullerton to deal with that question.

11 MR. FULLERTON: Well, corporate borrowers
12 can charge steady interest on bonds as an expense
13 prior to calculating income tax, so that they can
14 therefore tend to make bond interest as being
15 partially paid for by the Federal Government in a
16 sense, and if they pay 6 per cent bond interest it
17 is really 3 per cent in terms of tax income, whereas
18 the corporations and the municipalities do not operate
19 under that same advantage.

20 COMMISSIONER HARROLD: I am at a loss to
21 see where the disadvantage is as far as municipalities
22 are concerned. They are not in competition with
23 corporations.

24 MR. FULLERTON: They are in the bond market.

25 COMMISSIONER HARROLD: Well, the second
26 paragraph refers to the investors or the people
27 who are going to buy your bonds. Does that mean
28 that the first sentence refers to the investors,
29 too?

30 MR. FULLERTON: No, there are two separate



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MR. FULLERTON: No, there are two separate



1 points here. The first is that the corporate borrowers
2 have an advantage by being able to deduct interest
3 paid from their taxes, and the second point is that
4 the investors who own stocks can claim a tax credit
5 on their dividends on these stocks.

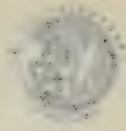
6 COMMISSIONER HARROLD: Well, I understand
7 that particular part, but I am still not quite clear
8 as to what effect it has on the municipalities.

9 MR. LLOYD: May I speak to this as an
10 accountant rather than a mayor? I would like to
11 make a general observation, if I may. The first
12 few pages are an attempt at summarizing, and perhaps
13 the tremendous value of this document -- which is
14 on the following pages -- may suffer by this
15 attempt at summation, and I do trust that the
16 Commission -- as I mentioned to my group last
17 evening -- will not think that the summary would
18 give you all the benefits of the submission which we
19 hope to bring to the Commission.

20 As I would interpret the first part of
21 (c) -- and I think it is enlarged on through the
22 brief -- it says:

23 "Present federal tax law puts
24 municipalities and other governments
25 at a disadvantage in comparison with
26 corporations who can charge bond interest
27 as an expense."

28 The decision making as to what kind of money you
29 can seek for your purpose on the part of private
30 corporations is influenced by the fact that it is



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COMMISSIONER HARRISON: Well, I understand

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The first is that the corporate borrowers



1 deductible and therefore they are in the market
2 seeking capital funds by way of borrowing in
3 competition with municipal and other governments,
4 and they can make it more attractive to the
5 investor because they have this feature of tax
6 deduction, and I think that it is in that sense
7 that it is meant.

8 THE CHAIRMAN: Not to the investor?

9 MR. LLOYD: To the borrower, I am sorry.
10 The private corporate borrower says, "Well, let us
11 get as many bonds as we can since we can take these
12 as tax deductions," and it becomes related to the
13 costs of their equity capital, and this is particularly
14 true of utility corporations.

15 MR. MOONEY: We are trying to suggest
16 that there are two types of borrowers, as far
17 as this paragraph is concerned. One, the private
18 corporation and the other the public body of the
19 municipality, and that because of the existing
20 federal tax laws with respect to a private borrower,
21 he is able to deduct that as part of the cost
22 of his borrowing from his income tax returns and
23 this decidedly puts municipal government at a
24 competitive disadvantage as compared to the private
25 borrowers who, in the last analysis, are able to
26 borrow their money cheaper than the municipal
27 governments because they are able to charge back
28 part of the cost to the federal government through
29 the income tax.

30 THE CHAIRMAN: The municipalities don't



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1 pay income tax.

2 MR. MOONEY: That is true, but they are
3 borrowing the same dollar.

4 COMMISSIONER LEMAN: The higher the tax
5 rate on corporations the more advantage the corporations
6 would have, is about the way the argument runs.

7 MR. FULLERTON: Yes.

8 MR. LLOYD: I am sure that the Commission
9 sees the point.

10 COMMISSIONER GIBSON: It sounds as if it
11 is an advantage to pay taxes.

12 MR. LLOYD: It may sound that way, but
13 it is a fact that here is a group of people who
14 want some money for a purpose, and in making their
15 decisions they are bound to look at the tax position.
16 I haven't found one of my clients that doesn't,
17 and I am sure that many of the clients of any consultant
18 looks at the question of the tax position. This
19 influences their decision as to how much private
20 stock, how much common stock, and how much borrowed
21 money they are going to go into the market for,
22 and it is in this sense I think that this summation
23 is made.

24 COMMISSIONER HARROLD: I am still
25 not quite clear. It is from the point of view
26 of the borrower, but if it was from the point of
27 view of the attractions to get money, I can go
28 along with the second part, but I am still not
29 quite clear as to how they are at a disadvantage
30 as compared to corporations. If the municipalities



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1 are not paying taxes, surely from the point of view
2 of the corporation or the municipality there is
3 no disadvantage from their point of view.

4 MR. LLOYD: A disadvantage in the sense
5 that it costs us more money because our competitors
6 are seeking this for their own purposes and are
7 willing to pay a higher price, because they can
8 use it as a tax deduction.

9 MR. KUSHNER: I think that the point made
10 by you is correct up to a point; in other words,
11 from the point of view of the investor who buys
12 the bonds, regardless of whether it is a corporate
13 or a municipal bond he will get the same tax position,
14 so at first glance there would be no difference,
15 but what we are trying to say -- at least, I gather
16 this from the way I interpret the first clause --
17 is that since it makes very little difference to
18 the investor, tax wise, and he may be interested
19 in a corporate bond that may give him some other
20 advantages as against a municipality bond and this
21 drives our costs up due to the pressure of the
22 corporate bonds also being on the market, so that
23 from the investor's point of view at first glance
24 it wouldn't make any difference, but if he has
25 an advantage in a corporate bond as compared to
26 ours, we are in competition; not because there
27 is any merit in one or the other, but the investor
28 has an advantage in that with a group of corporate
29 bonds their interest is deductible as a tax item,
30 whereas ours is not. We are placed in unfair

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1 competition here in the open market and it is a
2 little narrower than the competition you are trying
3 to place, and this is all that we had in mind.

4 COMMISSIONER MACKINTOSH: I would suggest
5 the only valid point you have here is that the
6 corporate borrower may be led by the tax deductibility
7 feature to be a little less prudent in trimming
8 his demands on the market?

9 MR. KUSHNER: That is quite right.

10 COMMISSIONER MACKINTOSH: I think it is
11 not well stated as a disadvantage; perhaps they
12 do price on the market to some degree because of
13 that, but I can see no other valid point in this
14 first part.

15 MR. TURPIN: Don't you think that if
16 the investors are offered, say, $6\frac{1}{2}$ or 7 per cent
17 bonds as against ours at $5\frac{1}{4}$ or $5\frac{1}{2}$ per cent, that
18 in reality the corporations are placed in a far
19 better position because half of their interest
20 expenses on these bonds are charged against their
21 tax to the government. They are able to raise
22 the interest on their bonds as against ours by
23 one-half or three-quarters of a per cent.

24 THE CHAIRMAN: Is there any evidence
25 that they do that? Why would they do that? It
26 costs them more if they do what you suggest.

27 MR. KUSHNER: Yes, but there is this
28 difference; let us take the hypothetical case of
29 a corporation which wants to borrow/^{money}and is prepared to say
30 6 or 7 per cent, you can't from the investor's point

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...you can't form the investor's point

1 of view -- take the borrower as compared to the
2 municipality; the municipality has to go to the
3 market and has to come up to that, otherwise the
4 investor will be attracted more to the corporate
5 bonds.

6 The net result is this, though; that
7 whereas our 6 per cent, or whatever rate you put
8 on it, is 100 per cent expense to us, I think the
9 rate of interest on a corporate bond may be only
10 part of that as an expense, because part will be
11 deductible as an income tax item anyway, so that
12 difference in the two places the municipality
13 at a disadvantage and he only pays a part, depending
14 on his tax rate. There is that difference, I think,
15 Dr. Mackintosh, at any rate. It may only be a small
16 difference, but there is enough in the total.

17 COMMISSIONER MACKINTOSH: Another point
18 is that you would not embrace joyously the obvious
19 way of remedying this?

20 MR. LLOYD: There are many ways of doing
21 it; I am not sure what you are referring to.

22 COMMISSIONER MACKINTOSH: Putting the
23 taxes on municipal revenue.

24 MR. LLOYD: No, this is the point I
25 tried to make earlier. I made this statement
26 last evening, that I was afraid that the first
27 few pages, which would attempt to summarize, would
28 in some way under-sell the great value of the
29 contents of the brief at times, and I will illustrate
30 this with a reference. If you would turn to page Q-1,

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1 Section 1, gentlemen, you will see that it says:

2 "In comparing their position with
3 corporate borrowers, the municipalities
4 (and, presumably, the provinces) feel
5 that they merit special consideration by
6 the Federal Government. Interest on
7 corporate bonds is a cost-sharing business
8 and a deduction from income before taxes.
9 A corporation therefore tends to regard
10 the coupons of a bond as half chargeable
11 against income tax. While it is technically
12 incorrect to argue that corporate borrowing
13 is actually subsidized by the federal
14 treasury, the effect is somewhat similar
15 and tends to tilt corporations towards
16 bond issues rather than equity financing.
17 This, in turn, increases the pressure
18 on the market generally and may raise
19 costs for other borrowers."

20 We are mindful of the fact that there is
21 another Royal Commission on Taxation, and what
22 effects that might have on this we don't know, but
23 in our position I think we are quite properly
24 drawing this sector to your attention.

25 COMMISSIONER BROWN: It seems to me that
26 there are two points you are trying to make here;
27 one is that corporations in a rising bond cost
28 market are at an advantage, in your opinion, because
29 of this tax thing?

30 MR. LLOYD: Yes.



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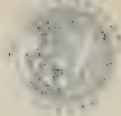
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Library of the
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1
2 MR. LLOYD: Yes. There is the disadvantage
3 on the one hand of a limitation on sources of funds.

4 COMMISSIONER LEMAN: Mayor Lloyd, have you
5 ever seen figures with respect to the average capital
6 structure of corporations when income tax was at an
7 average of 10, 12 or 15 per cent as against what it is
8 now, an average corporation tax of 50 per cent?

9 MR. LLOYD: No, I have not, sir.

10 COMMISSIONER LEMAN: I believe the record
11 shows it has not changed very substantially as a result
12 of the higher income tax.

13 MR. LLOYD: If the Honourable Chairman will
14 permit an observation on a matter of statistics, I have
15 found in my experience that this generally can be
16 rather dangerous. I was reminded of a story Lord Amory told
17 recently in Fredericton: that statistics should be used
18 like a drunk uses lamp posts, for support and not
19 enlightenment. I find it very difficult from our
20 rather modest position in municipalities to unravel all
21 the intentions of references to statistics in a general
22 way. There are volumes written on the subject. I
23 think it can be clearly stated for our purposes that
24 this circumstance does create a greater demand for bonds
25 among the municipalities. It is the only way they
26 can borrow money in Canada to a substantial degree, and
27 their borrowing is limited by this factor. That is
28 all we say. We say no more than that.

29 MR. MOONEY: Mr. Chairman, I think Mr.
30 Fullerton would like to make a further observation.

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1 MR. FULLERTON: It is in reply to Dr.
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3 taxing municipal income. I would personally suggest
4 as an alternative that on a corporation bond the
5 interest be deductible after tax. This would help
6 corporations to a much higher extent in equity
7 financing as it would free the bond market for
8 municipal borrowers.

9 COMMISSIONER MACKINTOSH: Possibly that
10 suggestion would find merit with the tax commission but
11 I doubt that their major reason for doing it, if they
12 should adopt that regulation, would be to improve
13 municipal borrowings. Other factors would enter into
14 it.

15 COMMISSIONER HARROLD: Perhaps we could go
16 on to another question. I am interested in paragraph
17 (f) on page A-2 of your brief. This is not the first
18 time I have seen this in print but I should like to
19 ask for a few examples of what you have in mind when
20 you state it in this way:

21 "The allocation of funds by senior
22 governments for capital development
23 projects reflect a built-in bias
24 against the requirements for the
25 rapidly growing urban areas."

26 As I understand it, the Federation of Mayors
27 and Municipalities, represents, as stated in your brief,
28 350 cities, towns, villages, townships, a cross-section
29 of municipalities of all kinds. In view of this I would be
30 interested in knowing what you have in mind. I presume

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1 it is capital projects you are referring to there?

2 MR. LLOYD: Yes.

3 COMMISSIONER HARROLD: Would you give us a
4 few examples of what you had in mind when you put this
5 paragraph in?

6 MR. MOONEY: Mr. Chairman, this is thin ice.
7 One could recite relatively recent examples of what we
8 had in mind when the sentence was put that way, and one
9 could go back over a long period of time to indicate
10 that in terms of both the federal and provincial
11 governments there is a certain tendency on their part.
12 This tendency on the part of the senior governments,
13 we say, is influenced by the composition of
14 representation in these legislatures in the balance of
15 rural as against urban representation, with the result
16 there is a tendency to favour the rural needs of the
17 nation rather than the urban needs of the nation.

18 THE CHAIRMAN: Do you not represent the rural
19 as well as the urban?

20 MR. MOONEY: I do not think the Federation
21 represents the rural in the complete sense that the
22 Federation probably more accurately represents the
23 urban communities of the nation, although this means
24 the largest metropolitan cities to the smallest little
25 cross-road hamlets. But we are not here now represent-
26 ing, for instance, the western wheat farmers or the
27 potato growers of Prince Edward Island.

28 THE CHAIRMAN: No, but do you not represent
29 the rural municipalities and rural townships?

30 MR. KUSHNER: Surely that does not prevent

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29 the rural municipalities and rural townships?

30 MR. KUSHNER: Surely that does not prevent



1 us, Mr. Chairman, from looking objectively at a problem.

2 THE CHAIRMAN: I was just wondering what the
3 view of the rural townships would be on this question.

4 MR. KUSHNER: I think all that Mr. Mooney
5 is trying to say, Mr. Chairman, is that due to the
6 heavy imbalance with respect to representation in the
7 various legislatures and in the Parliament of Canada,
8 an imbalance favouring the rural side, their objectivity
9 is biased and their means of allocating capital funds
10 is bound to be biased. What we are endeavouring to
11 point out to the Commission is that the urban taxpayer,
12 and in large our tax dollars come from the urban centres,
13 not only has to pay for his own capital borrowings
14 but, through federal and provincial projects, has to pay part
15 of the tune in the rural areas of the country. We
16 are not saying something has to be done that way, but
17 we say when it is done that way it is another pressure
18 on the urban municipalities.

19 COMMISSIONER HARROLD: I am aware of that
20 but my question was: can you give us a few examples
21 of what you have in mind?

22 MR. LLOYD: We could give you examples,
23 sir. For instance, there is a gasoline user tax
24 imposed in the Province of Nova Scotia. It is
25 universally applied to all users whether, for instance,
26 it is truck solely operating within a city or one
27 operating on provincial highways, and so on. Despite
28 this source of revenue, in the case of the City of
29 Halifax there is a limited access highway being
30 constructed and the minute it passes the boundary line --



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3 the City of Halifax. This is very realistic. It
4 costs us \$1,200,000.00 currently.

5 On the other side of the coin, in attempting
6 to deal with taxation and financing in the Province of
7 Nova Scotia -- and I think this applies generally to
8 other areas throughout Canada -- they measure the
9 volume of real property assessments as the ability to
10 pay. This, of course, assumes that in the large
11 urban districts they have the same obligations to supply
12 services as in the smaller villages and towns, despite
13 the fact that in the smaller villages and towns the
14 Royal Canadian Mounted Police may provide the police
15 force, and the provincial government may build the
16 main traffic arteries. Yet they use real estate as
17 the measuring stick of the ability to meet obligations
18 for education and highways.

19 COMMISSIONER HARROLD: You are really
20 suggesting larger representation for the major cities.

21 MR. LLOYD: I think it is the orientation
22 on the part of the provincial governments' finances
23 forgetting, of course, a good many other considerations
24 one could deal with. One could write a book on the
25 subject of representation in the legislature.

26 THE CHAIRMAN: Well, the big municipalities
27 have the great industrial and commercial assessment,
28 something which is denied to the rural.

29 MR. LLOYD: Let us take the position of the
30 County of Halifax. It has no industrial exemption.

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1 Boundary lines are slow in being changed. There seems
2 to be a very determined attitude to go very slow on the
3 subject of extended boundary lines. You have this
4 experience, Mr. Porter, in Toronto. You say they
5 have the industrial assessment. This, examined very
6 carefully, is not such an advantage as sometimes appears
7 to be seen, for it also creates demands for services.
8 As elsewhere contained in this brief, you will have
9 the industry located in the city but the employees of
10 that industry residing in the dormitory county next
11 door. But the dormitory county next door is the
12 one feeling the pinch, and this is why we make this
13 statement to you. It is just as much on behalf
14 of the county government as it is on behalf of the
15 city. It is wrong both ways.

16 COMMISSIONER HARROLD: Your main examples
17 are highways and education?

18 MR. LLOYD: There are others.

19 MR. TURPIN: In the Province of Quebec
20 the government subsidizes the construction of sewers
21 and water works for the smaller communities, and it
22 never does so for the larger cities or medium-sized
23 cities. They do the same thing in respect to paving
24 of streets. They never do it for the cities but they
25 do it for the smaller communities. That might be
26 an example.

27 MR. KUSHNER: If I may, Mr. Chairman,
28 direct your mind again to the problem before this
29 Royal Commission, the problem of banking and finance
30 and not so much the division of the tax dollar, what

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4 in the various legislatures throughout the country, the
5 there is certainly a resultant pressure on the urban
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7 capacity for the urban community -- which is a big
8 borrower in the capital market -- to borrow is greatly
9 affected. We are not asking you to change the
10 representation in the house, but we are just pointing
11 this problem out to you, one which prevails across
12 Canada. We know the history of it. It is one of
13 those things, but the fact is that the capacity of
14 the big municipality to borrow is handicapped.

15 COMMISSIONER HARROLD: Perhaps we could go
16 on to the next topic. I was just interested in having
17 this pointed up a little more. It is not the first
18 time we have heard of it or talked about it. Perhaps
19 we could go on to the topic of revenues. In paragraph
20 (a) on page F-1 you say:

21 "It has been suggested that
22 municipal governments are not
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1 The question is this. There is quite a
2 variation, is there not, on the level of taxes in
3 various cities and towns, and so on?

4 MR. MOONEY: Yes, there is quite a
5 variation. May I say in reference to this, in as much
6 as we are now discussing this section on the burden
7 of municipal taxation, that we should like to correct
8 page F-1. I have brought a correction with me.

9 COMMISSIONER LEMAN: It might be simpler
10 if you could give us the exact wording of the correction.

11 MR. MOONEY: There are three fundamental
12 corrections. First of all, there is a typographical
13 error. In paragraph (c) in the eighth line the percentage
14 figure of 31.4 is incorrect. It should read:

15 "By level of government this
16 income group contributed 22.8 per
17 cent of the federal revenues, 25.8
18 per cent of the provincial revenues
19 and 34.1 per cent of the funds
20 raised by local governments."

21 At the conclusion of that paragraph the
22 sentence should be concluded by reading:

23 "...from which it can be
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1 necessarily a clarification but a little more definite
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4 taxes are concerned the \$7,000
5 and over income group accounts
6 for approximately 30 per cent of
7 the total tax paid...."

8 We want to specify it as the "\$7,000 and
9 over income group".

10 COMMISSIONER HARROLD: Would you repeat
11 that last correction, please?

12 MR. MOONEY: Yes. It is the first part
13 of paragraph (f). It should read:

14 "Insofar as local property
15 taxes are concerned the \$7,000
16 and over income group accounts
17 for..."

18 I do not think it had anything to do with
19 the question you were raising. This is merely a
20 correction on the page.

21 COMMISSIONER HARROLD: I shall repeat
22 my question. Is there not a considerable variation
23 in the per capita tax amongst cities of comparable
24 sizes?

25 MR. MOONEY: Yes, there is. It is not a
26 wide variation but there is a variation. It is
27 not uniform, per capita-wise, in every municipality,
28 but there is a variation.

29 COMMISSIONER HARROLD: Would that not
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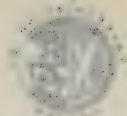


1 is now being taxed at a level beyond which it is
2 dangerous to go?

3 MR. MOONEY: I do not think so. I
4 should imagine there are some municipalities in this
5 country that could stand, without danger, an increase
6 in a property tax imposed, but generally speaking
7 for most municipalities, and particularly for the
8 larger municipalities across the country, we are of
9 the view that the present taxes that are imposed by
10 means of the property tax are pretty well at their
11 peak.

12 COMMISSIONER HARROLD: May I ask one
13 more question along the same line? How do you
14 measure that, by tax arrears or just by objections to
15 taxation?

16 MR. MOONEY: I would think there are
17 several general measurements that one could apply.
18 Tax arrears would be an indicator, and in some areas
19 of the country there is quite a problem with respect
20 to the basis of present property rates.



is now being taxed at a level beyond which it is

dangerous to go?

MR. MOONEY: I do not think so. I

should imagine there are some municipalities in this country that could stand, without danger, an increase in a property tax imposed, but generally speaking for most municipalities, and particularly for the larger municipalities across the country, we are of the view that the present taxes that are imposed by means of the property tax are pretty well at their

COMMISSIONER HARROLD: May I ask one

more question along the same line? How do you measure that, by tax arrears or just by objections to

MR. MOONEY: I would think there are

several general measurements that one could apply. Tax arrears would be an indicator, and in some areas of the country there is quite a problem with respect to the basis of present property rates.



1 We have not included a reference to that
2 in this document, but as recently as about 18 months
3 ago the Canadian Tax Institute produced a study on
4 the matter, and there was quite strong evidence at
5 that time based, I think, on the year 1958 or 1959,
6 that the percentage of uncollected tax arrears --
7 that is, unpaid taxes -- was growing, but we did
8 not introduce that as a factor here.

9 One of the measurements we have indicated
10 on the graph which follows page F-1. That applies
11 to one city, namely, the City of Vancouver, wherein
12 over the most recent five-year period total general
13 municipal taxes have increased at a higher percentage
14 than the average wages paid in that community.
15 This is an indicator which we think has significance.

16 You have probably looked at that table,
17 but the actual difference is 14 per cent as between
18 the general taxation imposed and the average weekly
19 wages and salaries based on the industrial composite
20 index. If you want to measure the percentage it
21 is 14 per cent, and we think this is of significance.

22 We think that the conclusions we have
23 drawn from Professor Goffman's recent study on
24 the burden of Canadian taxation indicates quite
25 clearly that municipal taxpayers in the aggregate --
26 the majority of them -- are taxpayers whose annual
27 incomes are less than \$7,000. Quite a high
28 proportion of them have an income of less than
29 \$4,000.

30 We think we have concluded correctly from

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1 the study that we refer to here by Professor Goffman,
2 and as we say in Section (f), that 70 per cent of the
3 property tax, which accounts for 93 per cent of
4 all municipal tax revenues -- using Professor Goffman's
5 figures which were based on a selection of taxpayers --
6 is paid by those with incomes less than \$7,000. We
7 also say that any significant increase in property
8 taxes will, therefore, be highly concentrated in
9 this group.

10 The burden of the financial support for
11 municipal governments is highly concentrated in that
12 income group, and we believe that the capacity of
13 that group to pay increased municipal taxes is marginal.
14 We believe it is already very high in most
15 municipalities across the country, and that any
16 substantial increase in the local property taxes
17 in these communities might very well be disastrous.

18 I use that word "disastrous" in the sense
19 that it conceivably could make it uneconomic for
20 people to continue to be home-owners. It might
21 force people out of their present homes because
22 the taxes are too high for them to bear. It might force
23 them to go into a less expensive home. There are
24 these kinds of considerations.

25 Also, Mr. Chairman, there are the political
26 aspects of taxation. There is a great feeling on
27 the part of local taxpayers against increases in
28 taxes, and this has had its impact upon the thinking
29 of those who comprise the political leadership of
30 municipal governments.



the study that we refer to here by Professor Goffman, and as we say in Section (f), that 70 per cent of the property tax, which accounts for 23 per cent of all municipal tax revenues -- using Professor Goffman's figures which were based on a selection of taxpayers -- is paid by those with incomes less than \$7,000. We also say that any significant increase in property taxes will, therefore, be highly concentrated in this group.

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1 Mayor Lloyd wishes to say something further.

2 THE CHAIRMAN: Before you go on, Mr. Lloyd,
3 there is a graph just before page G-1 which shows
4 the curve of total taxation. Does that take into
5 account the provincial payments to householders
6 in Vancouver?

7 MR. DAWSON: Yes.

8 MR. MOONEY: In the case of Vancouver
9 it does, sir, and it is mentioned under school
10 taxation above.

11 THE CHAIRMAN: That is what is meant by
12 "home-owner grants"?

13 MR. MOONEY: Yes. It is a purely provincial
14 situation in British Columbia.

15 COMMISSIONER BROWN: I would like to ask
16 one question with respect to this graph. When you
17 talk about per capita taxes are you talking about
18 per capita taxes over the whole tax roll, or per
19 capita taxes only in regard to home-owner taxation?

20 MR. MOONEY: I would assume it is over
21 the whole tax roll, but I am not in a position to
22 give you an answer. There is no one here from
23 Vancouver who can give us that answer.

24 COMMISSIONER BROWN: You are talking
25 about what the individual pays, and this graph
26 does not reflect what the individual pays.

27 MR. MOONEY: Oh, yes.

28 COMMISSIONER BROWN: If it is per capita
29 over the whole tax roll it would also include
30 industrial taxes.



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MR. MOONEY: Oh, yes.

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1 MR. MOONEY: I am not in a position to say
2 which of the two it is, but I would assume it is
3 over the whole tax roll.

4 COMMISSIONER BROWN: Similarly, on page
5 F-1, with respect to your reference to Professor
6 Goffman, Professor Goffman makes it clear that he
7 is talking about taxes paid by individuals, or by
8 persons.

9 MR. MOONEY: Yes.

10 COMMISSIONER BROWN: But when you get down
11 to paragraph (e) and paragraph (f), you refer to
12 the figure of 70 per cent of all municipal taxes,
13 and there you really mean all municipal taxes paid
14 by all individuals?

15 MR. MOONEY: By everyone.

16 COMMISSIONER BROWN: Including industry
17 and business? Your percentages, you see, refer only
18 to taxes paid by individuals, so it is 70 per cent
19 of all individual taxes paid by individuals.

20 MR. MOONEY: Yes, on the basis of Professor
21 Goffman's study.

22 COMMISSIONER BROWN: So your sweeping
23 statements are a little more definitive in that
24 they are confined to the municipal taxes paid by
25 individuals; is that correct?

26 MR. MOONEY: Yes, I would think so. These
27 are put forward not as indicative of a situation,
28 but only in the generalities in which we have tried
29 to interpret them.

30 COMMISSIONER BROWN: I was not trying to



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to illustrate them.

COMMISSIONER BROWN: I was not trying to



1 catch you out. I just wanted to make clear what
2 we are talking about.

3 MR. KUSHNER: To answer Commissioner Harrold's
4 question I might point out that we are dealing with
5 taxes across the country, and there are variations
6 from place to place, but I can say this of my own
7 municipality that even some of those people who have
8 bought homes recently with the help of Central
9 Mortgage and Housing -- we have concrete examples
10 of this -- are on welfare, and, in fact, the
11 municipality has had to help them to make the payments
12 on their houses. There are these cases cropping
13 up, and I have evidence of it. This is indicative
14 of what is happening, and we feel it is our duty
15 to alert this Commission to this trend. As Mr.
16 Mooney mentioned, some of these people are going
17 to be driven away from their homes, and one day
18 we are going to have to stop paying for the homes
19 of people who are not employed.

20 COMMISSIONER HARROLD: Do you think this
21 has something to do with the level of property
22 taxation?

23 MR. KUSHNER: Well, it has in this
24 sense, that we cannot go much higher, and the arrears
25 are increasing. Our collections are now down to
26 about 90 per cent. In some areas this trend is
27 a little slower in showing up, but it is there.
28 It is indicated in places where the standard
29 of service has been lowered because people have
30 refused to go on spending money for one thing or

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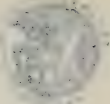
1 another. That is the best indication we have of
2 where the taxpayer says: "I cannot afford it".

3 COMMISSIONER HARROLD: You agree that
4 where it is necessary to do certain things it would
5 be better to raise the money by other means than property
6 taxation?

7 MR. KUSHNER: Yes, for one simple reason --
8 and I have had occasion to say this before, and I
9 think it should be placed before this Commission --
10 that no matter by what means you try to collect
11 the tax dollar it is either within the capacity
12 of the taxpayer to pay it, or it is not within his
13 capacity to pay it, but in the municipal tax circle
14 that taxpayer has no choice. We constitute the only
15 authority that can take away his property if he
16 does not pay his taxes, so we are probably more
17 sensitive to the position of the taxpayer than
18 any other tax-collecting administration would be.

19 MR. TURPIN: If municipal taxes were
20 the only taxes paid by the property owner it would
21 be easy to answer your question, but the whole matter
22 has now reached the point of diminishing returns.
23 You have to keep in mind every other kind of tax
24 paid, especially the provincial taxes and the
25 federal taxes. Those have increased greatly during
26 the past 25 years, and because they have increased
27 the property owners are less able to face the payment
28 of increased municipal taxes.

29 MR. KUSHNER: This is just an aside,
30 Mr. Chairman and gentlemen, but I think it might be



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MR. KOSHNER: This is just an aside,

Mr. Chairman and gentlemen, but I think it might be



1 interesting to note that although provincial and
2 federal revenues have increased over the past few
3 years the percentage of actual taxation has not
4 increased. Whereas municipal taxes have increased
5 from 5 per cent, say, to 6 per cent, this has not
6 happened to the same extent in respect to provincial
7 and federal taxes. While our municipal taxes have
8 gone up the federal taxes have not gone up in the
9 same ratio.

10 MR. LLOYD: Mr. Chairman, the question
11 was posed by Mr. Harrold, How do you measure it;
12 how do you draw the conclusion that real property
13 taxation has reached a dangerous point? I cannot
14 find any knowledgeable person in the field of
15 economics who has directed his efforts to this
16 particular subject, Mr. Harrold. I would like to
17 find one, because I know my own limitations in
18 this field. I can only make some observations in
19 answer to you, sir.

20 I think this Commission is looking not
21 solely at things today, but it is looking ahead
22 to the needs of Canada in the future. I think
23 that we must recognize the impact of the population
24 growth, and its relationship to the world as a whole.
25 You must also recognize that urbanization has
26 taken place in the sense that people are now seeking
27 employment for themselves and their families in
28 the larger urban districts.

29 The servicing field has occupied a great
30 proportion of the opportunity of people to work than

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1 it did in earlier times in this country, and in
2 many other countries, and this is due to automation
3 and other things. I think that is recognized.

4 There has been this shift towards living in urban
5 districts.

6 This means that the older cities are
7 faced with the necessity for substantial improvements.
8 Many of them are faced with re-development of worn
9 out sections. Many of them are trying to prevent
10 the sprawl of industrial development and urban
11 development along the main highways, and things of
12 that sort.

13 However, we are finding that entrepreneurs
14 wishing to undertake substantial new building do
15 take a look at municipal taxes today. They look
16 ahead 20 years to see what they will be up against.
17 This discourages them from making such investments,
18 and this, I think, is an indicator that your
19 real property tax is beginning to have a discouraging
20 effect on the entrepreneur, and this effect, therefore,
21 hampers the municipality's ability to prepare itself
22 for the expanded kind of services that are going
23 to be needed, and the improved and modernized
24 services that are going to be needed.

25 This business of measuring the ability
26 to pay for education on the basis of valuation of
27 real estate leaves the city with the larger volume
28 of real property to tax -- and, perhaps, the greater
29 share of industrial and commercial taxation -- in
30 this position, that the province does not assess

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1 it to the same degree as it assesses other municipalities,
2 and so there is this imbalance. In this respect the
3 measuring sticks used are the wrong ones. They will
4 say that the ability of the city to pay is measured
5 by what they called the equalized assessment, which
6 is not equalized at all. The value of the assessment
7 in the large city is compared with the value of
8 the assessment in the township which is far away
9 from that city. Land values in the two places
10 are quite different.

11 I think you will find that this is expressed
12 very realistically when you reach the point where
13 property value is declining on the market because
14 the buyers of property have not the income to service
15 the necessary debt to purchase the property or
16 a home. This then reflects itself in assessment
17 values, and you get the law of diminishing returns
18 operating.

19 I suggest to you -- and you are far more
20 knowledgeable about economics than I am -- that
21 a great many cities in Canada are in that position today,
22 although not all of them. I cannot say that this
23 is universally so. I think you will find many
24 situations where the real property tax is discouraging
25 investment, and is reaching the point where an
26 attempt to collect more tax dollars results in
27 a decline in tax revenue. It is only because the
28 assessor is slow in reflecting the changing market
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1 COMMISSIONER HARROLD: Are you saying
2 that this entrepreneur that you are talking about,
3 in making a choice between one city or another,
4 does take this into consideration?

5 MR. LLOYD: Yes, and there is also a
6 tremendous need for improvement in housing conditions
7 in many parts of Canada.

8 THE CHAIRMAN: That may be so, and this
9 sounds very familiar to me. I have heard it for
10 the past 20 years, year after year, from the
11 municipal associations and others, and in the course
12 of time the provincial and the federal governments
13 have in different ways attempted to relieve the
14 situation such as by making grants which are derived
15 from sources of revenue that the provincial
16 governments, for example, have and which the
17 municipalities do not have. The federal government
18 has also done a great deal in welfare expenditures
19 which has relieved the municipalities directly in
20 many cases, and indirectly in others, of their
21 burden. If the real property tax is entirely
22 inadequate what tax do you suggest, and how are
23 we going to get it?

24 MR. LLOYD: I say it is over-worked,
25 Mr. Chairman. I say it has not got a place ---

26 THE CHAIRMAN: Are not all sources of
27 taxation over-worked?

28 MR. LLOYD: I think that that is probably
29 so.

30 MR. KUSHNER: But it is rather interesting,

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1 Mr. Chairman, having regard to the excellent
2 background experience you have had in dealing
3 with municipalities, to note, despite all these
4 grants that the provincial and federal governments
5 in one form or another have given to the municipalities,
6 that the picture across Canada is that of the
7 municipal tax dollar collected less than 50 per
8 cent of it is left in the municipalities' hands.
9 The rest goes to education and other things.

10 THE CHAIRMAN: I know, but the same thing
11 can be said of the provincial and the federal fields.
12 I noticed that in Parliament the other day it
13 was pointed out that they could not reduce the
14 deficit much beyond what they have because there are
15 too many uncontrolled expenditures that they
16 could do nothing about until some statutes were
17 changed. Everybody is subject to this.

18 MR. LLOYD: I am going to resist the
19 opportunity to answer you on this aspect because
20 we are addressing ourselves to you as a Royal
21 Commission on Banking and Finance, and the purpose
22 of this submission is to indicate to you that
23 when we go to borrow money in the marketplace
24 investors in our bonds take a look at the general
25 economic position of a city or town or municipality
26 that is seeking the funds, and what they bid for
27 our bonds sometimes is reflected in how much
28 we can put out on the market at one time, and that
29 is governed by those factors. We are in the position
30 that if we are not getting the development and

Mr. Chairman, having regard to the excellent background experience you have had in dealing with the various financial matters of the Government, grants that the provincial and Federal Governments in one form or another have given to the municipalities, that the picture across Canada is that of the municipal tax dollar collected less than 50 per cent of it is left in the municipalities' hands. The rest goes to education and other things.

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1 expansion of the type that they like to see then
2 we do not get the response when we need to borrow
3 capital. It is only in that sense that we can
4 refer to the burden of property taxation before
5 this Commission.

6 MR. TURPIN: It is true, Mr. Chairman,
7 that the provincial and federal governments are
8 giving us more, but that is mostly due to social
9 legislation which has been passed and adopted by
10 the provincial and federal governments, but at the
11 same time ---

12 THE CHAIRMAN: And which was enthusiastically
13 supported by the municipalities.

14 MR. KUSHNER: Could we do otherwise?

15 MR. TURPIN: Yes, but at the same time,
16 Mr. Chairman, through the winter works programme
17 they are trying to shift on to our shoulders the
18 responsibility for unemployment. We have to borrow
19 winter after winter money to undertake these winter
20 works projects to take care of unemployment. We
21 have done so for the past two years, and we are
22 in it again this year, but we are reaching our
23 limit in this type of undertaking because our
24 borrowing power is so affected that we cannot, I
25 think, continue to do so for many years to come.
26 I am referring specifically, of course, to the
27 City of Hull. We will not be able to continue to
28 carry on. The federal and the provincial governments
29 in our case may be paying 90 per cent of the direct
30 labour cost, but that represents only 13 per cent



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MR. TURPIN: It is true, Mr. Chairman,

that the provincial and federal governments are giving us more, but that is mostly due to social legislation which has been passed and adopted by the provincial and federal governments, but at the

same time ---

THE CHAIRMAN: And which was enthusiastically

supported by the municipalities.

MR. KUSHNER: Could we do otherwise?

MR. TURPIN: Yes, but at the same time,

Mr. Chairman, through the winter works programme they are trying to shift on to our shoulders the responsibility for unemployment. We have to borrow winter after winter money to undertake these winter

works projects to take care of unemployment. We

have done so for the past two years, and we are

in it again this year, but we are reaching our

limit in this type of undertaking because our

borrowing power is so affected that we cannot. I

think, continue to do so for many years to come.

I am referring specifically, of course, to the

City of Hull. We will not be able to continue to

... on. The federal and the provincial governments

... are paying 90 per cent of the direct

... that represents ...



1 They are gradually shifting the responsibility for
2 unemployment on to the municipalities through these
3 winter works projects.

4 COMMISSIONER BROWN: On this question of
5 municipal revenues, have you any statistics, or have
6 you done any work on getting figures on the change
7 over the years of per capita taxation as paid by
8 individuals as against net incomes after payment of
9 federal taxation by individuals?

10 MR. MOONEY: We have done no specific work
11 on this matter.

12 COMMISSIONER BROWN: This sort of thing
13 would back up your argument a little more.

14 MR. MOONEY: What we have been saying here
15 is that with respect to this major source of revenue,
16 upon which municipalities depend for their operations,
17 namely, a property taxation, we have been saying that
18 property is now being taxed very high, generally
19 speaking, across the country. We have not said that
20 our cities and towns are impoverished, because there
21 is a great concentration of wealth in most of our
22 cities and towns, and in particular in our larger
23 cities. We are saying, however, that municipal
24 governments are not in position to get at the taxable
25 wealth of their communities because it is largely
26 pre-empted already by the federal government and by
27 the provincial governments.

28 Mr. Chairman, you have raised the
29 question that if the property taxation is not adequate,
30 then what other taxation do we suggest? The



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1 Federation as such has no position on that matter,
2 but the subject has been discussed informally and
3 there is a growing view -- I think I express it
4 correctly when I say there must be a greater dependence
5 on income taxation, and that this is a fair taxation.
6 There was a time when municipal governments were in
7 the income tax field in a modest way prior to the war
8 in the City of Montreal, in Moncton, and in Saint
9 John's, New Brunswick. These three municipalities
10 participated in income taxation. You are all familiar
11 with the war time taxation agreement whereby the
12 municipalities agreed to take their municipalities
13 out of the income tax field and since then municipalities
14 have not been in that field.

15 Many American cities are in that field,
16 and there is a feeling, particularly with reference
17 to school taxes which today are a burden on the
18 property tax, that if lower property taxes could be
19 levied so that revenue for schools be derived from
20 other than property taxes, for instance, income
21 taxes, that would give municipal governments the
22 further expansion in taxation revenues that they need.

23 It was suggested by the Gordon Commission
24 that a possible source of added municipal revenue
25 was taxation on automobiles. There is a great
26 variety in the taxation on automobiles from province
27 to province across the country, and I suppose that
28 automobile owners in many provinces -- I suppose in
29 all provinces -- regard the taxes that they pay on
30 their automobiles as high, but even if those taxes

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27 to province across the country, and I suppose that

28 automobile owners in many provinces -- I suppose in

29 all provinces -- regard the taxes that they pay on

30 their automobiles as high, but even if those taxes



1 were doubled they would not give the necessary relief,
2 and in terms of local municipal taxation, a tax
3 imposed on automobiles would not give the municipalities
4 any great leeway in the need for further revenues
5 that they require.

6 We have no view, Mr. Chairman, as to the
7 possible source, but in general our municipal thinking
8 is broadly along the direction I have indicated.

9 MR. TURPIN: Mr. Chairman, fifty years
10 ago perhaps property tax was a fair tax because then
11 most wealth was represented by real estate, but today
12 it is represented in common shares and bonds and
13 an imbalance has taken place in the basis of taxation.
14 I do not think the real estate tax for schools is
15 fair any longer to all Canadians in general because
16 a lot of people now have wealth represented in stocks
17 or in bonds and they are not taxed as fairly as
18 others.

19 COMMISSIONER BROWN: You are getting a
20 little wide on that point because people own shares in a
21 company, and the company owns property and the
22 municipalities are taxing that property and it all
23 comes to the same thing.

24 MR. MOONEY: It all comes to the same thing
25 but not in the same place.

26 COMMISSIONER BROWN: But it balances out
27 all over.

28 MR. KUSHNER: Yes, as has been pointed out,
29 using statistics is dangerous. Statistics remind me
30 of a fellow who drowned in a river the average depth



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of a fellow who drowned in a river the average depth



1 of which was less than one foot, but he found a deep
2 hole in it. There are many municipalities now in a
3 deep hole and we cannot generalize.

4 COMMISSIONER BROWN: It was the general-
5 ization that I was taking issue with.

6 MR. LLOYD: That is the reason why I was
7 very careful about generalizations. I can never
8 understand why it is in Canada in 1962 that the
9 Canadian National Railways pay full real property
10 taxes in the City of Montreal on its properties there.
11 They pay what is called a water tax, which in essence
12 is a business occupancy tax, in the City of Montreal
13 and they also pay tax on their hotel, but in the
14 Maritime provinces, by some legal fiction dug out of
15 the writing of the British North America Act they
16 are still only paying on half of the property tax,
17 and this has been argued for some twenty years.

18 If governments were paying their share
19 of taxation on their property equally right across
20 the country, which is not the case, then when they
21 started to build other new things they would say,
22 "Look, we have a tax factor down here or over there
23 or somewhere else, and we have to meet it. We had
24 better be very careful about our political expediency
25 decisions, about what we are going to build because
26 we will have to work out our revenues on a basis
27 sufficient to meet our taxation payments." That is
28 very important to Canada as a whole and there are
29 many illustrations of contradictions in that area.

30 COMMISSIONER BROWN: You are bringing up a

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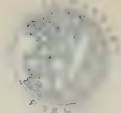
1 new point which has some validity, that is the question
2 of whether or not government authorities contribute
3 to the tax roll on the basis of the properties they
4 own in municipalities, and this has not been mentioned
5 this morning.

6 MR. LLOYD: I think the Federation has
7 worked very hard in this field, and we now have the
8 Municipal Grants Act which applies to post offices,
9 and defence installations, and things like that, but
10 there is still the National Harbours Board and the
11 Canadian National Railways which are outside this
12 sort of thing.

13 COMMISSIONER LEMAN: There is one thing
14 in your brief which comes out quite clearly, that
15 instead of proposing raising taxes you are proposing
16 various ways of reducing costs. This is a commendable
17 approach.

18 MR. KUSHNER: On that point, Commissioner
19 Leman ---

20 MR. LLOYD: May I just say this before
21 you go on, Mayor Kushner, may I get this one point
22 clear that real property as a measure of fair and
23 equitable contribution to municipal needs has its
24 limitations. This has the result that the more you
25 put on it the greater are the inequalities. You
26 have to be extremely careful how far you go with
27 municipal taxes and this is the reason, as Mr. Mooney
28 emphasized, that gradually the governments policy
29 is shifting over certain costs to the income
30 tax field and the sales tax field. We say that this



new point which has some validity, that is the question of whether or not Government authorities contribute to the cost of the highways. This has not been mentioned in municipalities, and this has not been mentioned

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MR. LLOYD: May I just say this before you go on, Mayor Kushner, may I get this one point clear that real property as a measure of tax and equitable contribution to municipal needs has its limitations. This has the result that the more you put on it the greater are the inequalities. You have to be extremely careful how far you go with local taxes and this is the reason, as Mr. McInerney explained, that gradually the government's policy is to shift over certain costs to the income tax field and the sales tax field. We say that this



1 process should continue, but gradually as the affairs
2 of the nation permit it. This gradual shift of those
3 things which will benefit the whole of Canada, and
4 education is certainly one, will help in the taxation
5 structure, and I certainly am not going into the
6 traditional story about Nova Scotia exporting brains,
7 but we have to pay the cost of education anyway.

8 MR. KUSHNER: In line with what Commissioner
9 Leman said regarding this point about reducing costs,
10 it is all right to talk about reducing costs but if
11 we at the municipal levels across the country started
12 cutting costs, which means in effect cutting services,
13 we would shake the economy of the country because
14 we are really the ones which keep it going. The
15 federal winter works program must stem from us.

16 COMMISSIONER LEMAN: Your general approach
17 is to suggest one way of reducing costs by reducing
18 the costs of the capital used.

19 MR. KUSHNER: Yes, that is correct.

20 COMMISSIONER LEMAN: And I say it is very
21 refreshing to hear this talk about cutting costs.

22 MR. TURPIN: I cannot help but make this
23 point clear again, that property tax is becoming more
24 and more unfair because more and more wealth today
25 is being invested in other types of values. It is
26 not like fifty years ago when it was all in real
27 estate. More and more people are investing in stocks
28 and bonds, and thus they are getting away from paying
29 their fair share of municipal and school taxes in that
30 way. It is true that there would be equalization of

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1 taxes if all property owners had the same percentage
2 of real estate, stocks and bonds, but this is not the
3 case. Some people's whole wealth is represented by
4 the little properties they have, their houses, while
5 other people do not even own a house but may have
6 \$500,000.00 invested in stocks and bonds, and this
7 means that they are not paying their fair share of
8 municipal and school taxes.

9 COMMISSIONER BROWN: There is another
10 side of that particular point, and that is that
11 Canada is one of the countries -- and there are not
12 too many of them -- that permit the owner of real
13 estate which he occupies to omit the income value of
14 that ownership from his income tax return.

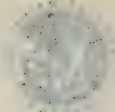
15 MR. MOONEY: No, sir.

16 COMMISSIONER BROWN: In other words, if
17 you have an investment in a house you do not have to
18 value the income value of that investment for income
19 tax purposes.

20 MR. TURPIN: If it is for your own
21 occupation.

22 COMMISSIONER BROWN: Yes, for your own
23 personal occupancy, whereas in other countries this
24 has to be included.

25 MR. MONGRAIN: But in those countries
26 they also allow the payment for mortgage interest and
27 then it has to be deducted. There is the other side
28 of the coin as well. We are talking in generalities
29 in one way, and it is refreshing to hear it, but it
30 strikes me that we are dealing basically with the same



of real estate, stocks and bonds, but this is not the case. Some people's whole wealth is represented by their houses, while

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1 taxpayers and there is the question of arriving at the
2 most equitable way of doing so.

3 Coming back to the main aim of the
4 Commission, we are suggesting to you that so far as
5 we are concerned in the municipal field, one of the
6 ways we feel we can be relieved of having to impose a
7 heavy burden of taxation on real estate is through
8 this medium of borrowing, but there are many cases
9 where municipalities cannot go to the money markets.
10 As a matter of fact the great city of Toronto,
11 metro Toronto, has been told by the Municipal Board
12 to be careful about its borrowings, and they are
13 probably the No. 1 rating in Canada at the moment.
14 You can go right down the line from there, and you
15 have to find some way to enable us to keep going to
16 the money markets.

17 THE CHAIRMAN: The other way might be to
18 slow down your programs.

19 MR. MONGRAIN: But if we do that the
20 economy of the country would suffer.

21 THE CHAIRMAN: But your worry is not what
22 is going to happen to the whole economy; it is what
23 is going to happen to your municipalities.

24 MR. LLOYD: Finally, Mr. Chairman, this
25 Commission has been appointed because the federal
26 government feels that it should go all out to find
27 out more about these things and see if it can correct
28 abuses and imbalances and mistakes that have occurred.

29 THE CHAIRMAN: Correct.

30 MR. LLOYD: We are suggesting to this

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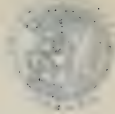
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1 Commission on Banking and Finance that the municipal
2 governments can contribute to the stabilizing of the
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5 As Mr. Mooney expressed it in other briefs
6 and on other occasions, if we undertake a new project,
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9 we make a solid contribution to keeping the economy
10 moving along, and in order to make that contribution
11 to solving this general problem of common concern
12 to all Canadians we are suggesting that you, on this
13 Commission, can direct your attentions to the plight
14 of the municipalities in finding money for their
15 purposes. We are suggesting to you that you do not
16 load this property taxation unnecessarily with higher
17 rates of borrowing. We are suggesting to you that
18 your interest lies as a Commission in seeing that
19 the municipalities can keep up with their public
20 operations which, as Mr. Mooney in another brief said,
21 are persuasive to the whole economy. If we build a
22 bridge in Halifax, or a road in Halifax, or construct
23 a highway in Halifax, Vancouver, Winnipeg or Toronto,
24 the necessary supplies for those capital undertakings
25 are supplied by the industrial complex of Canada
26 and everybody benefits by these activities. If we
27 fail to do that then we go back to the dreary days
28 when I first entered municipal government, when you
29 borrowed money to pay for your share of direct relief.

30 THE CHAIRMAN: Your position I take it is



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THE CHAIRMAN: Your position I take it is



1 this: that the municipalities are in a position to
2 spend money in a greater variety of ways with a
3 greater impact upon the whole economy.

4 MR. LLOYD: That is right.

5 THE CHAIRMAN: With greater social results
6 locally ---

7 MR. LLOYD: And nationally.

8 THE CHAIRMAN: -- and nationally than
9 money that is spent through central agencies?

10 MR. MOONEY: That is relatively so.

11 THE CHAIRMAN: And that the multiplier
12 effect of that, of money spent on some big project
13 in some specific place will spread throughout the
14 economy.

15 MR. MONGRAIN: That is correct.

16 THE CHAIRMAN: And if there is always a
17 demand for more services and need for more services,
18 and even if we are in a time of recession your
19 position is that the best way to solve it or to
20 approach its solution would be to open up the
21 coffers to the municipalities?

22 MR. LLOYD: Or to remove any possible
23 barrier to the full utilization of this advantage to
24 the economy.

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1 MR. TURPIN: We would like to very much
2 do what you suggest, Mr. Chairman; to slow down
3 our capital expenditures, but we are under pressure.
4 The provincial governments tell us to clean our
5 rivers; the federal government asks us to co-operate
6 with it to alleviate unemployment through winter
7 works programmes; the provincial highway departments
8 ask us to improve our communications between cities
9 and between provinces within our cities. The
10 pressure is so much on us that we have to envisage
11 increasing capital expenditures and certainly not
12 a reduction in them over the next ten to fifteen
13 years.

14 In our city across the river we have
15 undertaken a sewage treatment plant, a water filtration
16 plant and this will cost between \$10 million and
17 \$12 over the next three or four years. Certainly
18 we cannot put any greater burden on our property
19 owners due to these capital expenditures.

20 THE CHAIRMAN: We shall now adjourn for
21 15 minutes.

22 --- Short recess.

23 THE CHAIRMAN: We will now resume.

24 COMMISSIONER BROWN: Gentlemen, we
25 got off on a bit of a tangent just before we broke,
26 and I think it was largely my fault. Perhaps we
27 might now bring this back more to what we are really
28 discussing, and that is the problem of your
29 financing.

30 I wonder if we could discuss for a few

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financial situation. If we could discuss for a few



1 minutes the question of your short-term financing
2 which is largely for two purposes; one, for current
3 needs pending tax collections, or pending receipt
4 of grants from higher authority and; the other one,
5 pending long-term financing.

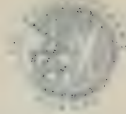
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7 or short-term financing pending tax collections or
8 receipts of grants, you make the plea that you
9 are a prime creditor and, therefore, you should get
10 consideration from the banks.

11 MR. MOONEY: Prime consideration.

12 COMMISSIONER BROWN: This whole thing
13 brings up the question of the 6 per cent ceiling
14 on bank interest rates. Have you had any thoughts
15 or discussions as to an opinion in respect of this
16 6 per cent ceiling? Do you think that if the banks
17 had wider range in respect of their charges that
18 they could perhaps have lower charges for the
19 prime borrowers and higher charges for the other
20 borrowers, or have you an opinion on that?

21 MR. MOONEY: I think there are opinions
22 on this rather than an opinion. Mr. Lowther, who
23 is the Commissioner of Finance for the City of
24 Ottawa, would be the one who deals realistically
25 with this problem. Perhaps Mr. Lowther might like
26 to make a comment.

27 MR. LOWTHER: Well, Mr. Chairman and
28 gentlemen, I do not see in one sense why the level
29 of interest rates chargeable by banks might not
30 conceivably find its level on the basis of the general



minutes the question of your short-term financing which is largely for two purposes: one, for current needs pending tax collections, or pending receipts of grants from higher authority and; the other one, pending long-term financing.

In respect of your bank financing, or short-term financing pending tax collections or receipts of grants, you make the plea that you are a prime creditor and, therefore, you should get consideration from the banks.

COMMISSIONER BROWN: This whole thing brings up the question of the 6 per cent ceiling on bank interest rates. Have you had any thoughts or discussions as to an opinion in respect of this 6 per cent ceiling? Do you think that all the banks had wider range in respect of their charges that they could perhaps have lower charges for the prime borrowers and higher charges for the other borrowers, or have you an opinion on that?

MR. MOWAT: I think there are opinions on this rather than an opinion. Mr. Lowther, who is the Commissioner of Finance for the City of Ottawa, would be the one who deals realistically with this problem. Perhaps Mr. Lowther might like to make a comment.

Gentlemen, I do not see in one sense why the level of interest rates chargeable by banks might not conceivably find its level on the basis of the general



1 market or credit position as the case may be in
2 the same manner as other lenders of money are able
3 to adjust the rates of interest that they are
4 prepared to allow in providing credit.

5 I think, if I may express it this way,
6 the one fear that municipalities might have if the
7 ceiling on bank rates was raised, is that most
8 if not all of us might find ourselves at the higher
9 rate rather than at the restricted rate of 6 per
10 cent as it is now. There have been only few cases,
11 at least as far as I can recall in recent years
12 when the bank interest rates were down below I
13 believe 5 per cent, when there was any special
14 consideration given to the rates charged to
15 municipalities. I believe there is a relatively
16 small so-called select group of municipalities
17 which were given a favourable rate as compared
18 with municipalities generally, and at that time
19 there was also a differential accorded to municipalities
20 depending on whether they financed by overdraft
21 or whether they financed by note. That differential
22 was a quarter of one per cent, in our case at
23 least. I do not know whether this same differential
24 applied to other creditors.

25 When interest rates went up to the level
26 of $5\frac{1}{2}$ per cent, if my memory serves me correctly,
27 that benefit as between overdraft and demand note
28 financing disappeared and, of course, when it went
29 up higher, to $5\frac{3}{4}$ and 6 per cent, where it is now,
30 the special considerations to this more or less

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1 select group of municipalities disappeared.

2 I think it is within the context of that
3 range of argument, so to speak, that we might have
4 some apprehension over the raising of the bank rate
5 as to whether or not this would prove of the kind
6 of benefit for municipalities that one might expect.
7 There would always be, I would suggest, probably
8 differences of opinion as to what constituted a
9 prime creditor on the part of municipal governments.
10 Everybody would think they should have the best
11 credit rating.

12 COMMISSIONER BROWN: This does not
13 apply just to municipalities.

14 MR. LOWTHER: That is right, and I
15 am not so sure from that standpoint whether this
16 would have, in its practical result, any beneficial
17 effect as far as municipal borrowers are concerned.

18 MR. MOONEY: The 6 per cent prime
19 rate has been a factor, of course, in the trend
20 that has developed in the last relatively short
21 while for municipalities, and they have acquired
22 their short-term requirements outside of the banking
23 structure, through their own other means. This is
24 referred to, as you know, in our own submission,
25 paragraph (g) at page I-2.

26 COMMISSIONER BROWN: Yes, and you
27 mentioned the experience of Winnipeg. I wondered
28 if you have any statistics as to how many
29 municipalities did that this year and what the
30 total borrowing was, as well as what the advantage



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mentioned the experience of Winnipeg. I wondered
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total borrowing was, as well as what the advantage



1 was? Have you any figures?

2 MR. MOONEY: We have no complete
3 statistics, but there is an addendum at that page
4 at the bottom wherein we point out that in the
5 spring of 1962 there was a number of municipal issues
6 of municipal paper sold privately and at a discount,
7 bearing coupons of $2\frac{1}{4}$ per cent maturing in two to
8 four months, costing the municipalities some 2.83
9 per cent to 3.65 per cent.

10 COMMISSIONER BROWN: You have not
11 any figures in respect of the total involved?

12 MR. MOONEY: I have not the figures
13 in respect of the total.

14 MR. FULLERTON: It should also be
15 considered that the maximum outstanding at any time
16 is around \$75 million. That is by way of a
17 gossipy estimate in that these were practically all
18 private placements and not made public.

19 COMMISSIONER BROWN: You do not mention
20 one other expedient that a number of municipalities
21 use, and that is the discount for pre-payment of
22 taxes.

23 MR. MONGRAIN: This is being done
24 in a few cities.

25 COMMISSIONER BROWN: And you do not
26 mention the other possibility, and that is having
27 taxes collected on a monthly basis.

28 MR. KUSHNER: Some provinces will not
29 permit it.

30 COMMISSIONER BROWN: Has this been



Was there any figures?

MR. MOONEY: We have no complete statistics, but there is an addendum at that page at the bottom wherein we point out that in the spring of 1902 there was a number of municipal issues of municipal paper sold privately and at a discount, bearing coupons of 2 1/2 per cent maturing in two to three years at 3 1/2 per cent.

COMMISSIONER BROWN: You have not any figures in respect of the total involved?

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MR. KUSHNER: Some provinces will not

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COMMISSIONER BROWN: Has this been



1 discussed at all?

2 MR. MOONEY: Yes, it has been discussed
3 and continues to be discussed. There is no general
4 trend developing as to whether, or what a municipality
5 is likely to do, but I think increasingly municipalities
6 are likely to go off the annual and semi-annual
7 payment to a quarterly or even monthly method.
8 Some municipalities I understand are on a monthly
9 payment basis now.

10 COMMISSIONER BROWN: This would reduce
11 borrowing?

12 MR. MOONEY: Yes.

13 COMMISSIONER BROWN: And would also reduce
14 the investing end of it for the second half of
15 the year, is that correct?

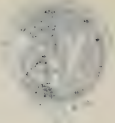
16 MR. LOWTHER: But it will also cost
17 more money.

18 COMMISSIONER BROWN: That is right.

19 MR. LOWTHER: I think generally speaking
20 it can be said that the monthly or bi-monthly system
21 of paying taxes would prove more costly in the long
22 run because of greater administrative costs. This
23 is so in our case. We made a study of it and
24 we decided that this could be justified only on
25 one basis, and that is, shall I say, lessening the
26 resistance of the taxpayer toward increases in
27 taxes.

28 COMMISSIONER BROWN: That might be a good
29 reason for it.

30 MR. KUSHNER: Incidentally, you are referring



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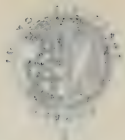
MR. KUSHNER: Incidentally, you are referring



1 to the assessment of taxes. I think we have noticed
2 that in those suburban areas that have grown up
3 in the last few years surrounding each major city,
4 the discounts are taken advantage of—because there
5 are only perhaps half a dozen companies which pay
6 the total taxes—by a very few, whereas in a city
7 itself most of the homes are owner-owned and mortgage-
8 free, and in these cases the discounts do not apply
9 to the same extent. We can almost assume that when
10 these areas reach the stage where these companies
11 get off the hook, and the individual will own his
12 own home, they will be in exactly the same position
13 as the cities are now.

14 MR. TURPIN: I can give you a case in
15 respect of our own city. We gave a 3 per cent
16 discount for pre-payment of taxes in the first
17 month after the bills are sent out. We discontinued
18 that last year because we found that there were
19 four or five large taxpayers who were getting about
20 one-third of the total discount. We have changed
21 over to a system of charging 5 per cent interest
22 after two months from the date of sending out of
23 the bills. We think we are saving money and making
24 taxes a little more equitable because only four
25 or five were taking advantage of the discount,
26 representing about one-third of the over-all discount
27 given, and about 50 per cent of all property taxpayers.
28 The load was not evenly distributed.

29 MR. KUSHNER: A situation has developed
30 in some of the provinces because provincial legislation



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MR. TURNER: I can give you a case in respect of our own city. We gave a 3 per cent discount for pre-payment of taxes in the first month after the bills are sent out. We discontinued that last year because we found that there were four or five large taxpayers who were getting about one-third of the total discount. We have changed over to a system of charging 5 per cent interest after two months from the date of sending out of the bills. We think we are saving money and making taxes a little more equitable because only four or five were taking advantage of the discount, representing about one-third of the over-all discount given, and about 50 per cent of all property taxpayers. The load was not evenly distributed.

MR. KUSHNER: A situation has developed in some of the provinces because provincial legislation



1 limits the penalty in respect of arrears of taxes
2 to one-half of one per cent per month. We have
3 literally hundreds and hundreds of cases, particularly
4 in areas where the entrepreneur, as Mr. Lowther
5 likes to call them, but I call them speculators,
6 own thousands of acres of land and deliberately
7 let the land go into tax sale for two years, and
8 we have to finance them, actually, because provincial
9 legislature prohibits us from charging more than
10 one-half of one per cent, although we have asked
11 for this to be increased. Indirectly we have
12 to finance them as well.

13 COMMISSIONER BROWN: In respect of the
14 matter of short-term financing pending capital
15 issues, to what extent does this act as an insulation
16 against higher interest rates in the long-term
17 financing end of it? In other words, to what extent
18 does this improvement in the availability of bank
19 credit give you the opportunity to delay long-term
20 financing until interest rates are more favourable?

21 MR. LOWTHER: Well, I think the only
22 way that this can act in that manner which you
23 suggest is that it gives a period of time within
24 which to exercise a decision. There is a variation
25 in the practice. For instance, some municipalities --
26 probably less frequently now than they used to in
27 the past -- quite frequently issued their bonds
28 before they did their work. Now the tendency
29 is the reverse. You borrow from the bank to finance
30 your programme and when the work is finished you go



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1 on the market.

2 To the extent that you are able to get
3 short-term credit in the manner that you suggest,
4 as I said a moment ago, this gives you a period of
5 time in which to exercise some judgment as to when
6 you should try and sell the bonds for the particular
7 purpose you have in mind. Beyond that, other than
8 from the standpoint that I do not think municipalities
9 generally speaking should be in a position where
10 they have to try and play the market, the general
11 philosophy which seems to commend itself to me,
12 at least, is that when you need the money you go
13 on the market for it and you pay whatever the price
14 happens to be. If you try to hedge against a
15 raising or falling market you can be caught off
16 base and can be wrong. If you are right you are
17 a hero, but if you are wrong you are not a very
18 good finance commissioner.

19 COMMISSIONER BROWN: I think that is the
20 point I was trying to bring out. This bank financing
21 in respect of long-term borrowing is done at
22 your option?

23 MR. MOONEY: Generally.

24 MR. DAWSON: Not entirely. I would question
25 that. In Montreal we just had a \$29 million issue
26 for the Metropolitan Area. We delayed that issue
27 for almost a year because the provincial government
28 had other issues. The Hydro had an issue of \$50
29 million. This became a provincially guaranteed
30 issue and they said: We do not want you going on

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1 the market now. In the meantime we used bank
2 credit. So, I think it is a question of supply
3 in the money market, and this has some bearing as
4 to when you are going on the money market.

5 I quite agree with Mr. Lowther, I think
6 we as municipalities should try to be smart every
7 time, but there is that other factor in respect
8 of large issues such as we have in the Metropolitan
9 Corporation, we have to delay because of other
10 issues.

11 MR. LOWTHER: I suggest as well, gentlemen,
12 that a municipality has not complete flexibility
13 in the exercise of its judgment in respect of the
14 short-term credit situation. The position of the
15 banks themselves sometimes promotes this situation,
16 to be quite frank. I say this with some hesitation
17 because of one member of your Commission who is
18 sitting in front of me, but I think our banker
19 was quite happy to see us go on the short-term
20 market this year in respect of \$10 million.

21 MR. TURPIN: The option to exercise
22 our judgment in that field is limited, at least
23 in our province. The municipal commission tells
24 us when we should or should not go on the market
25 with an issue. I think this is good because it
26 limits the number of municipalities coming on the
27 market at a certain time. We have found that the
28 advice of the municipal commission in the province
29 of Quebec has been extremely helpful in that field.

30 MR. LLOYD: In short there is a limit

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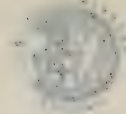


1 to the number you can use because you are up against
2 this attitude of the municipal commissioners. We
3 are responsible to the provincial governments, and
4 they are watching to see that we do not go too long
5 without meeting our obligations in retiring capital
6 borrowing.

7 MR. TURPIN: If it was possible to find
8 a means of perhaps averaging the interest charges
9 to municipalities when they have to go and borrow
10 for two or three months in comparison to what
11 they receive when they invest funds that they
12 have in surplus, I think it would be very helpful.
13 In our own municipality as of the first of June,
14 or the fifteenth, we have \$1 million surplus.
15 We invest it in short-term Treasury Bills and
16 get perhaps four, four and one-quarter or four
17 and one-half per cent. When we have to borrow we
18 have to pay a higher rate of interest. If it
19 were possible to use one municipality's surplus
20 to finance municipalities which had to borrow on
21 short-term the over-all result would be a lower
22 rate for all municipalities in Canada.

23 COMMISSIONER BROWN: You are suggesting
24 that municipalities should work on different
25 year-ends? Are they not all on the same seasonal
26 basis?

27 MR. TURPIN: I do not believe their needs
28 arise at the same time. Certainly they have
29 surpluses at different periods of the year. I
30 think if one surplus could be used to help the needs



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1 of another municipality, the over-all result would
2 be very beneficial to all municipalities.

3 COMMISSIONER BROWN: You make mention of
4 a government sponsored loan corporation, but it
5 seems to me that this is something which municipalities
6 within each province must work out with their own
7 provincial legislatures, if it is feasible at all.

8 MR. KUSHNER: No, sir, Mr. Commissioner.

9 COMMISSIONER BROWN: I am not talking
10 about a national loan now at all, I am talking about
11 short-term. I am not talking about long-term borrowing,
12 I am talking about short-term borrowing. At the
13 moment you probably are all trying to borrow
14 in the spring and invest in the fall, and when I
15 say "all", again I am getting into a generalization?

16 MR. MOONEY: That is correct, generally.

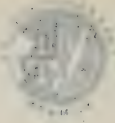
17 COMMISSIONER BROWN: It would only be
18 possible to do it among yourselves if you had
19 different year endings; some of you collecting
20 your taxes in January and others in October, etc.,
21 otherwise it is not feasible, is that right?

22 MR. KUSHNER: Right.

23 COMMISSIONER BROWN: Could we now go on
24 to long-term financing? You make quite a lot of
25 the statutory limitations based on assessed values,
26 and you mention the commission report of the
27 United States. To what extent are there in fact
28 statutory limitations?

29 MR. MOONEY: Right across the country.

30 MR. KUSHNER: Right across the board.



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1 COMMISSIONER BROWN: Is it not correct
2 that in most provinces these statutory limitations
3 are relative or in relation to assessed values
4 when you are borrowing for general purposes?

5 MR. LLOYD: There is none in the city
6 of Halifax.

7 COMMISSIONER BROWN: The City of Halifax
8 is subject to no limitation?

9 MR. LLOYD: There is no limitation as to
10 the amount of an issue. This is based on the judgment
11 and decision of the Municipal Affairs Board; in
12 the first instance, the City Council.

13 COMMISSIONER BROWN: You have no
14 statutory limit?

15 MR. LLOYD: There is no statutory limit
16 on the amount we can borrow.

17 MR. LOWTHER: We do not have in Ontario
18 either.

19 MR. KUSHNER: We have in Manitoba except
20 in respect of the City of Winnipeg which has its
21 own charter.

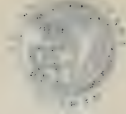
22 MR. DAWSON: Quebec has.

23 COMMISSIONER BROWN: I know there are
24 in some cases statutory limits on borrowing for
25 some purposes, but public utility borrowing is
26 exempted from this?

27 MR. DAWSON: Not in Quebec.

28 COMMISSIONER BROWN: In Quebec it is
29 under statutory limitation?

30 MR. TURPIN: It is 20 per cent.



COMMISSIONER BROWN: Is it not correct

that in most provinces these statutory limitations are relative or in relation to assessed values when you are borrowing for general purposes?

MR. LLOYD: There is none in the city

of Halifax.

COMMISSIONER BROWN: The City of Halifax

is subject to no limitation?

MR. LLOYD: There is no limitation as to

the amount of an issue. This is based on the judgment

and decision of the Municipal Affairs Board; in

the first instance, the City Council.

COMMISSIONER BROWN: You have no

MR. LLOYD: There is no statutory limit

on the amount we can borrow.

MR. LOWMYER: We do not have in Ontario

either.

MR. KUSHNER: We have in Manitoba except

in respect of the City of Winnipeg which has its

MR. DAWSON: Quebec has.

COMMISSIONER BROWN: I know there are

in some cases statutory limits on borrowing for

some purposes, but public utility borrowing is

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COMMISSIONER BROWN: In Quebec it is

MR. LLOYD: It is 20 per cent.

1 COMMISSIONER BROWN: Presumably to borrow
2 implies ability to repay and a willingness to repay.
3 Do you suggest there should be no limitation on this
4 at all?

5 MR. MOONEY: No, we are not suggesting
6 there should be no limitation. We are suggesting,
7 however, that the present rule of thumb consideration
8 that the market seems to bring to bear on municipal
9 borrowings needs re-examination, and we are suggesting
10 that where there exists provincial statutory
11 limitations, they should be looked at again and,
12 even in those provinces where there happen to be no
13 provincial statutory limitations but where in effect
14 there are limitations exercised, that the basis upon
15 which municipal governments are able to borrow in a
16 particular amount should be revalued.

17 We have summarized the general point of
18 view and the general conclusions of the Inter-
19 Governmental Committee in the United States as
20 indicative of the sort of inquiry that ought to be made
21 with reference to Canadian municipal borrowings so
22 far as limitations are concerned.

23 COMMISSIONER BROWN: Surely you have some
24 criteria to suggest, have you not?

25 MR. MOONEY: We have no precise criteria.
26 There are some municipal people who feel that the
27 limit on municipal borrowing ought to be related more
28 to the proven revenue resources of an individual
29 government, and probably a projection of the potential
30 revenue over a period of five to ten years to come or

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1 during the lifetime of the borrowing. The idea is
2 that this is a more valid basis for computing the
3 capacity of the borrower to pay than merely the
4 assessment value of the property in the community.

5 MR. KUSHNER: Generally speaking, Mr.
6 Commissioner, all things being equal, assuming the
7 economy does not go down too much, why should there
8 be a different yardstick applied to the municipal
9 borrower than is applied to the private borrower?
10 Why should not a similar yardstick, the capacity and
11 resources and ability of the borrower to repay, be
12 used both for municipal borrowers and private
13 borrowers? And why should there be an arbitrary
14 ceiling of 20 per cent, and that is it? There does
15 not seem to be any rationalization to that percentage.
16 Surely just a flat 20 per cent ceiling without any
17 reasoning behind it does not make sense.

18 COMMISSIONER BROWN: Have you any
19 statistics on how many municipalities are up to this
20 ceiling?

21 MR. MOONEY: No, we have no actual
22 statistics. They are not available.

23 COMMISSIONER BROWN: You must be able to
24 tell us how many larger cities are up to it?

25 MR. KUSHNER: The larger cities all work
26 within their own charters. As I mentioned, the
27 City of Winnipeg, Manitoba, under its own charter
28 has no ceiling.

29 MR. LLOYD: There is no statutory ceiling
30 but we have a limitation imposed. They just will not



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1 approve a bond issue in the City of Halifax, in the
2 Province of Nova Scotia, if it exceeds a 20-year
3 period. Lacking the criteria and the kind of
4 knowledge on matters about/this Commission is trying to
5 enlighten the government, this is the search:
6 Can we have more sophistication in this matter and
7 instead of just saying, "We don't know what the answer
8 is and, to be on the safe side, we will say twenty
9 years"?

10 In a sort of elementary way they say;
11 look at the interest it is going to cost you. Yet,
12 in many cases, if you did not pay the interest you
13 would not have the services or extended facilities
14 in your time. If someone wants to come up with
15 some scheme in the province, saying, "Look, we
16 want you to pay as you go along" then we would have
17 to bow to that policy and would have to find some ways
18 and means of putting it beyond our present obligations
19 and on a pay-as-you-go basis.

20 All we are saying is that in looking ahead
21 to the kind of things we have to do, if there are
22 going to be limitations they should be related more
23 to the particular kind of projects being undertaken.
24 For example, if you are going to share the cost of
25 land acquisition with the federal government, which
26 is done at the present time on a clearance scheme
27 under Central Mortgage and Housing Corporation, the
28 federal government puts up 50 per cent of the revenue
29 and the local municipality puts up the other 50 per
30 cent. You have to fund this operation.

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1 In the old country I believe there is a
2 device known as debenture stock. We had debenture
3 stock years ago, and all we paid was the interest and
4 it had no terminal date at all. In fact, some of it
5 is still outstanding, but not very much. We have
6 pretty well taken care of all that. But in the case
7 of land which has a development value in it, it may
8 very well be that the carrying charges would serve
9 as a debenture. This is something we do not know.
10 In the case of financing water utilities, you come
11 up against certain conflicts. In the case of a publicly-
12 owned utility in Nova Scotia, the Board's regulations
13 with respect to accounting for depreciation are all
14 oriented to the private company with equity capital,
15 when the needs to maintain the shareholders'
16 capital fund is obvious. Yet, under these regulations
17 the limit of a water utility is 30 years, and you have
18 a water system main supplied for a life of 50 to
19 60 years or more, and with respect to your capital
20 installation for your reservoir, your water source,
21 the tendency is to attempt, first, to require the
22 municipality to retire the capital, repay the capital
23 over thirty years and secondly, at the same time,
24 in the rate structure to provide for depreciation
25 of the asset and have the current generation provide
26 the capital not only for the current plant but also
27 for the replacement. This is an illustration of
28 what is happening in Nova Scotia. It is only one
29 illustration and it may be an isolated one in Canada.
30 I do not know this, but I do think if the Municipal



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1 Affairs Department would distinguish between revenue-
2 producing projects, as Mr. Mooney has pointed out, and
3 those kind of capital works that obviously have a
4 rural life, generating revenues, if you like, or
5 even generating tax revenues, that some longer periods
6 might be practicable in certain circumstances.

7 MR. MOONEY: May I just make this
8 further observation, that while there are to our
9 knowledge no statistics as to the percentage of
10 municipalities whose debt is verging on 20 per cent
11 of their tax value, it is generally said among
12 municipal people and in meeting in conference together
13 that there is a growing number of municipalities that
14 are marginal to that position. It has been said
15 that there are some who are over it. I stand to
16 be corrected but I am of the impression that the
17 City of Toronto, or Metropolitan Toronto, is marginal
18 or over that position. I understand that the City
19 of Ottawa is marginal or over that position. I believe
20 that other cities across the country are getting up
21 to the marginal point, so that their capacity to
22 undertake any very substantial, net capital commitments
23 is increasingly being limited.

24 MR. MONGRAIN: Mr. Chairman, I should
25 like to be allowed to say a few words in French then
26 I would ask my friend George Turpin to translate
27 what I say. I can explain myself better in French.

28 (As translated by Mr. Turpin): We are
29 discussing the means of raising money, and especially
30 long-term requirements. Financing municipal

Affairs Department would distinguish between revenue-producing projects, as Mr. Mooney has pointed out, and those kind of capital works that obviously have a rural life, generating revenues, if you like, or even generating tax revenues, that some longer periods might be practicable in certain circumstances.

MR. MOONEY: May I just make this further observation, that while there are to our knowledge no statistics as to the percentage of municipalities whose debt is verging on 50 per cent of their tax value, it is generally said among municipal people and in meeting in conference together that there is a growing number of municipalities that are marginal to that position. It has been said that there are some who are over it. I stand to be corrected but I am of the impression that the City of Toronto, or Metropolitan Toronto, is marginal or over that position. I understand that the City of Ottawa is marginal or over that position. I believe that other cities across the country are getting up to the marginal point, so that their capacity to undertake any very substantial, net capital commitments is increasingly being limited.

MR. MONGRAIN: Mr. Chairman, I should like to be allowed to say a few words in French then I would ask my friend George Turpin to translate what I say. I can explain myself better in French.

(As translated by Mr. Turpin): We are discussing the means of raising money, and especially



1 capital expenditures is very different from financing
2 the capital expenditures of a private enterprise.
3 A basic and fundamental new means must be found to
4 raise the money to finance these capital expenditures.
5 We are suggesting very respectfully to the federal
6 government that it is urgent to find ways and means
7 of perhaps doing this through the method used in
8 Europe, like the Belgium "Credit Communal" and others.
9 If the Federal government could find a means of
10 creating an institution that would have branches
11 in the provinces, or would work with the provinces
12 to help the financing of municipal capital expenditures,
13 I think most of our municipal financing problems
14 would thus be taken care of, if not eliminated. At
15 least it would settle probably 85 per cent of all
16 our problems. This seems to be the opinion of a good
17 number of my colleagues, if not the majority of
18 them.

19 COMMISSIONER BROWN: I had some other
20 points to discuss on the present situation, but as
21 this point has been brought up perhaps we might
22 consider it now. I understand that Mr. Leman has
23 some questions on it.

24 COMMISSIONER LEMAN: Well, the means that
25 Mr. Mongrain is now referring to is what you suggest
26 in your brief, "A national municipal loan fund".
27 There are some aspects of the proposal, though, that
28 were not too clear to me. In Appendix "A" you did
29 give us a little bit of information about these
30 types of institutions that you say have been created

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give us a little bit of information about these

types of institutions that you say have been created



1 in other countries. I could not find one that was
2 exactly quite the duplicate of what you seem to be
3 suggesting here.

4 MR. MOONEY: We are seeking to establish,
5 Mr. Leman, by the appendix that the principle and
6 the idea of a national institution to provide the
7 capital required by municipal governments is not a
8 new idea, that this is something that has been done
9 in a great number of countries in Europe. We have
10 placed in the appendix the general operation, the
11 modus operandi of these particular national
12 institutions in these various European countries.
13 But we are not thereby suggesting that any one of
14 these is the pattern for what we think is needed in
15 Canada, but merely to overcome the objection that
16 may be raised, "Well, this is a new and novel idea.
17 Is it practical?" I can say that it is practical
18 in those countries that we have illustrated.

19 COMMISSIONER LEMAN: All right, but I
20 would like to ask you a few questions on this. I
21 will start with some general questions and then we
22 will get down to some more particular questions
23 about it. First of all, was it because you felt that it
24 was of the resort of this Commission to discuss
25 or investigate what this could do for municipalities
26 in the form of reducing costs of raising capital,
27 that you restricted the discussion to this point? It
28 seems to me that it would not solve all your capital
29 raising problems --

30 MR. MONGRAIN: Most of them.



Thomas, Ontario

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1 COMMISSIONER LEMAN: -- to achieve this
2 idea of getting a formation of such a body on a
3 national basis. I have not got the reference here
4 exactly but what do you think on average this would
5 accomplish in the sense of reducing your average cost
6 of capital used, in, say, percentage? How much
7 do you think it would do?

8 MR. MOONEY: We think it could reduce
9 percentagewise the cost of borrowing probably by
10 one and a half per cent.

11 COMMISSIONER LEMAN: One and a half per cent
12 of average cost?

13 MR. MOONEY: This is in terms of our
14 basic proposals, and that is that the federal revenues
15 derived from taxation of interest on municipal bonds
16 be applied to municipal loans contracted through the
17 municipal development loan agency that we suggest in
18 our brief.

19 COMMISSIONER LEMAN: How much do you
20 think that would produce a year?

21 MR. MOONEY: We think probably something
22 in the range of \$50 million to \$60 million.

23 COMMISSIONER LEMAN: You have that
24 reference in paragraph (e) on pages Q-1 and Q-2, but
25 you do not give us any figures on how much you think
26 that would produce by way of income. The point is
27 this. Suppose you did reduce the average cost of
28 borrowings for municipalities by one and a half per
29 cent. In an earlier section you indicate the
30 huge size of future capital requirements of

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1 municipalities and it does not quite convince me that
2 unless there is some kind of a re-allocation of
3 responsibility between municipalities and senior
4 governments, that you would quite achieve your purpose.
5 It might help.

6 MR. MOONEY: We go further. We have not
7 done it in this statement, Mr. Leman, but we have
8 been arguing the proposition with the federal
9 government, and we will be returning to the argument
10 in a meeting that we have with the federal cabinet
11 on November 9th, namely that there is a parallel
12 interest today in many of the possible works undertakings,
13 a parallel interest between the municipal, provincial
14 and federal governments.

15 We are contending that the growth and
16 redevelopment needs of cities these days are no longer
17 purely local, that they are part and parcel of a
18 national situation and that therefore there is a
19 strong and compelling case for a greater participation
20 by the three levels of government in the implementation
21 of these capital works requirements. Therefore,
22 we contend there is greater need for federal and
23 provincial participation in the capital costs of
24 many municipal undertakings, and that if this were
25 done, if the borrowing cost to municipal governments
26 of their share of expenditures in these undertakings
27 was made available to them at lower carrying costs
28 than they are now, we could see these undertakings
29 being carried through.

30 COMMISSIONER LEMAN: All right. Let us



1 get down to exactly what the concept is. First of
2 all, why do you believe this has to be undertaken
3 at a federal level?

4 MR. MOONEY: For several reasons. Perhaps
5 others might want to add one or two reasons, but
6 we think the time has come when we have to not only
7 say we are a nation but we ought to act as a nation,
8 and we say that these are national concepts that
9 we are putting forth.



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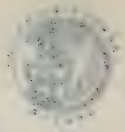


1 We don't think the ten provinces are equally able
2 to undertake these responsibilities that we are
3 suggesting. It may well be that the larger and
4 wealthier provinces could fully undertake the
5 responsibilities, jointly as between provincial
6 and municipal, including the raising of capital funds,
7 but we don't think that this would be true of all
8 the ten provinces and therefore we suggest that
9 it should be done nationally through the Federal
10 Government initiating in co-operation with the
11 provinces the instrumentation whereby all provinces
12 and all municipalities and all companies have an
13 equality of opportunity to participate in this
14 undertaking. That is one basic reason.

15 Secondly, we believe that on balance we
16 would get a better rate for municipal governments
17 with the Federal Government creating the loan
18 fund and backing it with its credit, as against
19 the variation that there may be if it were done
20 on purely a provincial level, and therefore we
21 get a better ---

22 COMMISSIONER LEMAN: Is it your concept
23 that the Federal Government would guarantee all
24 borrowings by this fund?

25 MR. MOONEY: Our concept is that it would
26 be a joint guarantee of the province and the
27 Federal Government and the borrowing municipality.
28 You are bringing to bear on the capital needs
29 of municipal governments these supports, and that
30 is our concept.



We don't think the ten provinces are equally able to undertake these responsibilities that we are suggesting. It may well be that the larger and wealthier provinces could fully undertake the responsibilities, jointly as between provincial and municipal, including the raising of capital funds, but we don't think that this would be true of all the ten provinces and therefore we suggest that it should be done nationally through the Federal Government initiating in co-operation with the provinces the instrumentation whereby all provinces and all municipalities and all companies have an equality of opportunity to participate in this undertaking. That is one basic reason.

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1 Now, there is ample precedent for what
2 we are proposing right here in the Canadian situation.
3 The Municipal Improvement Self Liquidating Loans
4 Act of 1938 is in substance what we are suggesting
5 should be re-instituted, but on a different basis
6 than the national Municipal Improvement Self
7 Liquidating Loans Act of 1938. The legislation
8 which permits the Central Mortgage and Housing
9 Corporation to make loans to municipal governments
10 with approval is of the same general nature as
11 what we are proposing, and for the same purpose.

12 We don't think either of these approaches
13 is sufficiently comprehensive for our needs, looking
14 to the future.

15 MR. TURPIN: What has been done also
16 for industries through the Industrial Development
17 Bank; I think this is a definite example of
18 what the Federal Government has done to help
19 industries. Why couldn't the same thing be done
20 to help the municipalities? It was done by the
21 Federal Government.

22 COMMISSIONER LEMAN: You point out
23 that you feel that municipalities should remain
24 free to borrow through this instrumentality or
25 to go outside?

26 MR. MOONEY: That is right.

27 COMMISSIONER LEMAN: Now, would you
28 visualize that if there existed such an institution
29 the municipalities should still remain under some
30 control as to how much of these funds would be

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MR. MOONEY: That is right. COMMISSIONER LEMAN: Now, would you visualize that if there existed such an institution municipalities should still remain under some as to how much of these funds would be



1 available to each municipality?

2 MR. MOONEY: We would think ---

3 MR. KUSHNER: On that point we are
4 not saying how it should control them; we are
5 suggesting that the Federal Government -- say that
6 it will support X dollars -- we envisage a practice
7 wherein that application would be processed by the
8 provincial authorities as to the amount and the
9 qualifications of the municipality, and that after
10 approval we probably would get the funds from
11 the Federal Government.

12 MR. MONGRAIN: We would still have
13 to go through our municipal commissions who have
14 set the standard.

15 MR. LLOYD: There is another very
16 challenging aspect to this matter which would
17 involve you as a Commission to a greater degree
18 than has been expressed in this brief.

19 Canada's position with regard to need
20 for capital for all of these purposes, private and
21 government, puts us in a position that we have to
22 go abroad to find that capital, and the extent
23 to which we obtain it, ^{and} later on there is the residue
24 of problems affecting the exchange rates. One
25 part of the country finds that for some reason
26 or other it cannot finance as easily in the American
27 market, for example, as another part. Somebody
28 mentioned today the fact of \$29 million being
29 arranged, and most of it all in the United States.
30 The residual impact of this kind of shift to borrowing

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Canada's position with regard to need than has been expressed in this brief.

involve you as a Commission to a greater degree challenging aspect to this matter which would

MR. LLOYD: There is another very not the standards

to go through our municipal commissions who have MR. MONTGOMERY: We would still have

the Federal Government.

approval we probably would get the funds from

qualifications of the municipality, and that after provincial authorities as to the amount and the

wherein that application would be processed by the it will support X dollars -- we envisage a practice

suggesting that the Federal Government -- say that not saying how it should control them; we are

On that point we are



Nethercut & Young

Toronto, Ontario

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1 extensively in the United States I would imagine
2 would be of some concern to this Commission and-
3 its ultimate recommendations, although I am not
4 knowledgeable enough to know what trend it might
5 bring about, but it would seem to me that in our
6 borrowings abroad for municipal purposes if we
7 took the Canadian approach to it rather than leaving
8 it to the individual that this would be desirable
9 from a national point of view because of its
10 ultimate effect in future times of having to meet
11 the repayments in foreign currencies, and it
12 would seem to me that acting in concert through
13 a national agency would be desirable from a national
14 viewpoint.

15 Now, it has been said on occasions
16 that Canada does not own enough of this equity
17 interest in its industrial and other production.
18 I don't know whether this kind of thing would shift
19 the amount of borrowing we do from equity to
20 capital coming into Canada to a greater degree
21 of bonded indebtedness or not, and all which that
22 implies, but certainly I think it is food for
23 thought that we might very well, if you have got
24 to go outside for capital, we might be able in
25 the end result, through taxation and other policies, we might
26 be able to get more of our capital needs supplied
27 to Canada in terms of borrowed money, interest
28 paying borrowed money, than in terms of equity
29 controlling capital. I don't know. I don't know
30 enough about the total operations in Canada and



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1 what stimulates private enterprise to get into
2 things, and it would seem to me that there is
3 concern of the national government -- and it has
4 been expressed at times -- about the foreign
5 ownership of Canadian industry, and that there would
6 also be concern about the amount of borrowing
7 each municipality is doing in the United States.

8 COMMISSIONER GIBSON: Would you say
9 it is a national fund for borrowing in the United States
10 for the benefit of the municipalities?

11 MR. LLOYD: I would say it is a
12 national fund, and certainly if an institution of
13 this kind was operating it would be extremely useful
14 in guiding and directing the footsteps of the
15 municipalities in its foreign borrowings.

16 COMMISSIONER GIBSON: Making decisions
17 or giving advice?

18 MR. LLOYD: Giving advice in this
19 field. There are some municipalities that are
20 better than others and there are others that are
21 not as knowledgeable about what is happening.

22 THE CHAIRMAN: I understood that the
23 national fund would borrow money directly?

24 MR. LLOYD: That is right.

25 THE CHAIRMAN: And the fund would
26 decide whether for the purposes of the fund it should
27 be borrowed in the States or here?

28 MR. LLOYD: Yes.

29 THE CHAIRMAN: The municipalities have
30 nothing to do with this decision at all?



George, Ontario

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1 MR. LLOYD: But what are they doing now?
2 The municipalities are borrowing in the States. I
3 am trying to resolve your interest in this from
4 the national viewpoint.

5 THE CHAIRMAN: I understand your point
6 to be that some municipalities are borrowing
7 indiscriminately in the United States even though
8 that might be contrary to national policy at the
9 time?

10 MR. LLOYD: That is right.

11 MR. TURPIN: You have the recent example
12 of the City of Quebec that has borrowed from
13 Switzerland at $4\frac{1}{4}$ or $4\frac{1}{2}$ per cent. I think that
14 this might have been contrary to the national
15 policy.

16 MR. KUSHNER: As a matter of fact, not
17 very long ago the Federal Government advised that
18 municipalities are not to go to the American
19 market, and then shortly after that the opposite
20 advice was given, but shortly after that there was
21 the devaluation of our dollar and those municipalities
22 that borrowed were caught short. In order to avoid
23 these things and in the national interest we feel
24 that a bank that would grow year by year and
25 by the accumulation of funds through income
26 taxes payable on municipal bonds that it would
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28 for municipalities right here in Canada, and it
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1 COMMISSIONER LEMAN: You do suggest that
2 each municipality should remain free to borrow
3 outside?

4 MR. TURPIN: That is right.

5 COMMISSIONER LEMAN: But the question I
6 would like to ask you, and I am not sure whether
7 Mayor Lloyd was making this point or not, but if
8 from the point of view of policy there has been
9 some worry about foreign ownership of industry in
10 Canada -- and there have been people before this
11 Commission who have suggested that if we are going
12 to use foreign funds to a large extent, maybe
13 it would be safer to use them for municipal and
14 housing purposes than to use them for industry
15 purposes; what do you think of that?

16 MR. LLOYD: I suggest to you that it would
17 seem to me a sensible sort of thing; one of those
18 elementary things that crops up, and we say it
19 does make sense. Can anybody tell me what is wrong
20 with the proposition? If you must obtain capital
21 you must, and if you can influence foreign industry
22 to take it in the form of indebtedness, in the form
23 of interest paying instruments rather than in
24 common stock equities, which leads them into
25 management decisions and the operation of the
26 company with the use of natural resources and
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1 which may be the end result. It might be the end result is
2 not too much difference, I don't know, but I would
3 suspect that the Federal Government would see the
4 mutual advantage in the establishment of a municipal
5 bank in so far as foreign capital borrowings are
6 concerned. It would bring them closer to the
7 situation in the long range and the impact of
8 Canada's ability to meet these obligations to
9 foreign countries.

10 MR. MOONEY: That to the extent that
11 the aggregate of municipal capital borrowing in
12 Canada, which in a given year runs up to \$250 million
13 to \$300 million, and this has been a recent average,
14 that amount of capital borrowing can have a very
15 significant relationship to national policy.

16 Now, it seems to us that this can best
17 be exercised through one organization that is in
18 a better position than municipal government to
19 determine whether it is wise, prudent, or thus
20 and so. It takes away from the municipal government
21 probably its right to exercise its freedom in
22 connection with the market, but viewed in terms
23 of the total impact of municipal borrowing, maybe
24 it is a desirable thing to have take place.

25 COMMISSIONER LEMAN: What I wanted to
26 make sure of is whether you realized that such
27 a body would necessarily result in some kind of
28 allocation of funds in the process in the province?

29 MR. MOONEY: Right.

30 MR. KUSHNER: The experience will teach



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COMMISSIONER LEAH: What I wanted to make sure of is whether you realized that such a body would necessarily result in some kind of allocation of funds in the process in the province?



1 us how to deal with this, bearing in mind the
2 total picture. If we centralize the control of
3 the borrowing, as we suggest, it is in the national
4 interest to do that, instead of each one of us
5 going -- as we see fit or as we are told, and some
6 of us do go and some do not, because if you are
7 going to help the nation as a whole, vis-a-vis
8 foreign investors -- the International Fund, for
9 example; if you decided to go to any one market,
10 you would direct the foreign investment to this
11 channel rather than to the industrial channel.

12 MR. LOWTHER: If I may make an observation
13 here, one of the dominant factors which has led
14 or generated a great deal of thinking -- of the
15 desirability of having some such an instrument
16 as that suggested-- has been the fact that as
17 matters stand now municipalities have to establish
18 their position in the market at any given point
19 of time, and that market was influenced by many
20 things over which the municipalities have no control,
21 nor can they do much within their own framework
22 to affect these market conditions in any given
23 point of time.

24 I think, too, that municipalities are
25 in the position where they are able to withdraw
26 from the market, but they are not able to stop
27 their programme of works at any given point of time
28 to avoid exposing themselves to adverse market
29 conditions, and many of the projects and requirements
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3 of which is housing, a national housing policy
4 whereby the Federal Government puts millions or
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6 automatically it puts the responsibility on the
7 municipality to provide services for these houses.
8 It just cannot stop this capital development
9 programme.

10 Now, what is the result of this?
11 Back in 1956 and 1957 I think there were times
12 in those years when some municipalities in the
13 smaller level -- if I may express it that way --
14 were unable to find some of the capital that they
15 wanted on the open market. There were just no
16 bidders. Other municipalities, of which we were
17 one, were told by the investment people that true
18 we could get the amount of money we wanted on the
19 Canadian market at that time, but to do so we
20 would virtually have broken the municipal bond
21 market. In other words, we would have had to pay
22 a rate of interest in excess of what normally we
23 might have had to pay had there been a more abundant
24 supply of funds available for municipal investment.
25 The result of this was that we, like other
26 municipalities, then resorted to the American
27 market.

28 Now, I mention this because you suggest
29 that the feeling which has prompted in my mind
30 the development of such an institution as a national

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1 municipal loan fund is largely from the standpoint
2 of being able to find a source for borrowing money
3 when you need it and when you want it , and that
4 this is probably the dominant factor in this
5 whole thing because, as I said earlier, we are
6 forced to sort of expose ourselves to whatever
7 set of conditions happen to exist at a given point
8 of time through the normal open money market
9 operations, and there is nothing we can do to cope
10 with it, so we just have to accept this as a fact
11 and do the best we can.

12 COMMISSIONER GIBSON: Did I understand
13 Mr. Kushner to say that this organization would
14 control municipal borrowing?

15 MR. KUSHNER: Oh no, that wasn't the
16 intention.

17 COMMISSIONER GIBSON: Municipalities
18 would still be free to borrow on their own?

19 MR. MOONEY: Oh yes. This organization
20 would marshall the funds; it would obtain the
21 funds.

22 COMMISSIONER GIBSON: You said something
23 about the control of the borrowing.

24 MR. KUSHNER: There is a certain control
25 which exists now at the provincial level by various
26 municipal bodies, but I am not suggesting that that
27 should be disturbed and the municipality must
28 still go through the process of being cleared by
29 the provincial authority. This wouldn't be an
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1 MR. TURPIN: No, sir.

2 MR. LLOYD: It is in the international
3 interests of marketing.

4 MR. TURPIN: If what has been said so far
5 is true -- and I think it is true -- as to the
6 difficulties experienced by municipalities during
7 the past fifteen years since the end of the war, what
8 can we expect over the next fifteen or twenty years
9 if \$29 billion of capital expenditures is necessary
10 to meet the situation? I think it might well ~~could~~
11 create havoc, perhaps anarchy, on a national scale
12 and in international conditions in the financial
13 and monetary fields. We feel it is becoming
14 imperative that such a thing be done, otherwise the
15 provincial and the federal governments will be in
16 difficulties also regarding financial affairs. We
17 will all be seeking money from the same people.

18 MR. LLOYD: Canada cannot compete, Mr.
19 Chairman, with countries of the common market and
20 other countries which have a centralized authority
21 in the monetary and financial fields. If we continue
22 to have the slowdown that comes with trying to bring
23 about constructive action in the whole nation within
24 the framework of, and some bending over backwards
25 in interpretation of, the B.N.A. Act. The emphasis
26 is always on what we can find that denationalizes
27 Canada in the B.N.A. Act, and this emphasis is a
28 great tragedy in Canada in 1962.

29 The emphasis should be the other way.
30 It should be on what is the extent of the B.N.A. Act



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1 in bringing us together into a common nation.
2 Certainly all the powers to make tariffs is centralized,
3 and that conveys with it implications of international
4 matters in the various sectors of your social
5 organization. The banks are a matter of national
6 interest and control, and it seems to me that if we
7 are going to have to bear the results in one part of
8 the country because another part of the country at
9 the moment can go into the United States and borrow
10 extensively, and we lose out in some other way some
11 years later on, then we have an interest in what is
12 happening in any part of Canada in respect to
13 borrowings in the United States or in any other
14 country such as Switzerland and France. I think
15 there is a mutual interest in this.

16 COMMISSIONER GIBSON: But you are not,
17 in fact, suggesting these things should be concentrated
18 in one place. You are saying that the municipalities
19 should have the right to do these things.

20 MR. LLOYD: Yes, because you are compelled
21 to get the thing done in Canada you have to be careful
22 you do not intrude on what is so often called
23 provincial rights. If you did not have any such
24 thing there would be no hesitation about it, but I
25 think, insofar as borrowings outside Canada are
26 concerned --

27 MR. TURPIN: The federal government has
28 control over credit and finance. We are not asking
29 for more control.

30 THE CHAIRMAN: Should we not consider this

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1 not only from a constitutional point of view but on
2 its merits? Is it feasible? Would it be a useful
3 thing to do? Would it be an improvement in the
4 situation of the municipalities throughout the country.
5 Those are the first things we should be looking at,
6 but if there are constitutional difficulties ---

7 MR. LLOYD: We could let somebody else
8 worry about that.

9 MR. TURPIN: But it comes within the power
10 of the federal government to do such a thing because
11 it already controls credit and finance in this
12 country. The time might be appropriate -- I am not
13 suggesting that this is contained in the brief, and
14 I am not speaking for the Federation now, but I have
15 heard it said among mayors that presently the
16 Bank Act of Canada is giving the chartered banks
17 the power to increase credit in circulation based
18 on their cash on hand; that with, say, eight per
19 cent it can lend 100 per cent, or with \$8 million
20 it can lend \$100 million. If through the Bank
21 Act the chartered banks are given this power why
22 could not such a power be granted or given to the
23 municipal banks of our country? Could they not,
24 with a contribution of \$8 million from the federal
25 government or the provincial government lend the
26 municipalities \$100 million. This, again, would
27 affect the overall picture, but with proper controls
28 why would not this be reasonable in the municipal
29 field?

30 MR. MONGRAIN: Mr. Chairman, I understand



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field?

MR. MONTGOMERY: Mr. Chairman, I understand



1 Mr. Leman has some other questions to ask. Can we
2 ask Mr. Leman to proceed with his questions?

3 COMMISSIONER LEMAN: Has this idea ever
4 been suggested as a proper one for the agenda of one
5 of the Dominion-Provincial Conferences?

6 MR. MONGRAIN: We have been trying for
7 years.

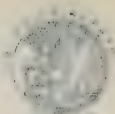
8 MR. LLOYD: The Dominion-Provincial
9 Conferences happen to have closed doors so far as
10 municipalities are concerned. We are not welcome
11 at those Conferences. However, this has been
12 discussed directly with the Cabinet.

13 MR. MOONEY: We discussed this and had
14 a meeting with the Cabinet in 1959. We had a three-
15 day session with the Prime Minister and a number of
16 the cabinet. It was an off-the-record conference,
17 but during the period of our three day meeting we
18 talked about the establishment of an international
19 municipal loan fund. We discussed the pros and cons,
20 and we reached no conclusion, but it has been discussed
21 as between the Federation speaking for the municipal
22 government and the federal government.

23 The problem of municipal capital borrowing,
24 however, has been referred to at meetings as between
25 the dominion and the provincial governments at their
26 last few meetings.

27 COMMISSIONER LEMAN: What would prevent
28 the institution of such a body on a voluntary basis
29 through the union of municipalities itself?

30 MR. TURPIN: Why not organize our own bank?



Mr. Leman has some other questions to ask. Can we

ask Mr. Leman to proceed with his questions?

COMMISSIONER LEMAN: Has this idea ever

been suggested as a proper one for the agenda of one

of the Dominion-Provincial Conferences?

MR. MONTGOMERY: We have been trying for

MR. LLOYD: The Dominion-Provincial

Conferences happen to have closed doors so far as

municipalities are concerned. We are not welcome

at those Conferences. However, this has been

discussed directly with the Cabinet.

MR. MCOWEN: We discussed this and had

a meeting with the Cabinet in 1939. We had a three-

day session with the Prime Minister and a number of

the cabinet. It was an off-the-record conference,

but during the period of our three day meeting we

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MR. TURPIN: Why not organize our own bank?



1 Would you give us the same power that you are giving
2 to the chartered banks?

3 COMMISSIONER LEMAN: Wait a second, now.

4 I do not think we should get confused as to how banks
5 operate, but banks before they can start lending
6 money, have to get the people's savings in. Just
7 because the federal government would put \$8 million
8 into this outfit does not enable it to lend \$100
9 million unless it borrows it, or ---

10 MR. LOWTHER: --- or prints it.

11 MR. LLOYD: I think Mayor Turpin said it
12 was an expression of his own opinion. We have not
13 studied this.

14 COMMISSIONER LEMAN: Yes. There are some
15 elements in this country that have come close to
16 arguing that money grows on trees, but this Commission
17 does not believe that.

18 MR. LLOYD: This was not the view of this
19 Federation.

20 MR. MONGRAIN: I think the Federation is
21 of the opinion it would be definitely better if we
22 had a unique pattern, broadly speaking, all over the
23 country, and then after that it could be adapted in
24 each province. That might be the best reason for
25 having a national organization.

26 MR. LLOYD: I wonder if it is applicable
27 at all, but could we use Metropolitan Toronto as an
28 example ---

29 THE CHAIRMAN: I did not think that
30 Metropolitan Toronto would ever be put up as an example



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1 here. This is the first time I have ever heard of
2 its being an example of anything outside of Toronto.

3 MR. LLOYD: Look at Metropolitan Toronto.
4 We find some features -- when I say "we" I mean the
5 Manitoba group -- that we think are excellent. By
6 pooling their resources the suburban areas have
7 certainly benefited in having one authority going to
8 the market. There has been a saving of about
9 \$4 million a year in interest.

10 I am not talking about the larger cities
11 that have established their credit, but those
12 municipalities that are becoming urbanized and that
13 are having difficulties in getting money, would benefit
14 from a national bank. I think that Mr. Leman's
15 suggestion that it be done on a voluntary basis is
16 impossible. There must be a centralized source of
17 funds, and I think in the interests of all of Canada
18 the federal government should spearhead this thing.
19 It may be that some contribution should be made by
20 the municipalities, but that could be looked into
21 after this is settled.

22 MR. MOONEY: If I may say, Mr. Leman,
23 I think the answer to the question you have asked is
24 that this is possible, but I think the time factor
25 involved in bringing it about would probably be
26 somewhere between now and the end of this century.
27 This is the way the Netherlands municipalities
28 went about organizing their municipal institute.
29 That is an exclusively municipally owned, managed,
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1 not too dissimilar from the organization in Belgium
2 which was supported by the municipalities. So, one
3 can assume that theoretically this is possible, but
4 the time factor involved in doing it -- we are not
5 ready yet.

6 COMMISSIONER LEMAN: What I am trying to
7 do is follow your thought through. I am suggesting
8 to you that if this institution was created under
9 the auspices of the federal government, with the
10 federal government's credit behind it, it would end
11 up by operating cheaper than the provinces themselves.

12 MR. KUSHNER: Probably.

13 MR. LLOYD: Why would that have to be?

14 COMMISSIONER LEMAN: Therefore, the
15 credit available for municipal purposes would end
16 up by pre-empting the market. Let us say the first
17 credit in the country now is the federal government's.
18 Therefore, it is the cheapest, and the one that can
19 tap the most sources. Now, this would become the
20 second one, and that would put the provinces third;
21 is that right?

22 MR. LLOYD: There is nothing to stop the
23 provinces being a part of this picture. You could
24 call it the provincial-municipal fund, if you like.
25 Once the principle is accepted then we can look at
26 it. There is no suggestion at the moment that the
27 municipality should pre-empt the field as compared
28 to the provinces.

29 MR. LOWTHER: When you look at the
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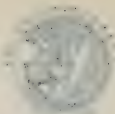


1 responsibility it discharges in our time you will find
2 that it is not responsible for national defence; it
3 has nothing to do with the field of tariffs; and it
4 has nothing to do with banking and finance. Is
5 not there something more than an analogy between
6 the responsibility of a larger urban city and that
7 of a province? Should they not come to realize
8 that in this field they have the same interest?

9 The other side of the coin is that if
10 you must go abroad for capital, as we are now doing,
11 then the national interest is involved, and therefore
12 some degree of cooperation should be there, at least,
13 and some universal understanding of all of the
14 elements of advantage that are seen in doing this
15 should exist, and the timing should be known --
16 at least, there should be a common source of
17 information about it -- which such a central agency
18 would provide.

19 If, on the other hand, it is a bad thing
20 to do, and you have to do less borrowing in the
21 United States, and the national government says it
22 is in the national interest for you to do less, then
23 you go to the development bank and have it arbitrate
24 as to the sharing of available funds from your own
25 national sources. Whichever way we look at it
26 I think we are obliged to accept this fact, aside
27 from putting forward the plea that it is a theoretical
28 exercise.

29 MR. MOONEY: Let us assume that this
30 national-municipal loan fund was created and it



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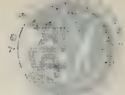
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2 being a federal approach to the market rather than
3 a provincial approach which would, therefore, give
4 us a higher rating ---

5 COMMISSIONER LEMAN: I am just trying to
6 suggest to you that we live in a country where there
7 are politicians and where there are certain
8 constitutional problems involved in autonomies and
9 that sort of thing.

10 MR. MOONEY: If it worked that way it
11 might be useful to the municipalities, and it might
12 be useful also to the provinces. Maybe this is
13 a step towards better coordination of the capital
14 borrowing needs of governments in the whole country.

15 We have not at any point in the brief
16 mentioned the Australian loan council because we
17 did not have that in mind. We are mindful of some
18 of the criticisms made against the Australian loan
19 council, but certainly there is a growing need for
20 a better organization of the municipal borrowing needs than
21 that which we presently have in the country, and
22 we are suggesting this is a sensible, feasible --
23 I will use the three adjectives the Chairman used --
24 scheme. It is useful, and it is desirable.

25 COMMISSIONER LEMAN: That was one feature
26 that did surprise me. In Appendix A there is no
27 reference to the Australian arrangement. That is
28 why I was a little bit puzzled as to exactly what
29 your thinking is with respect to this national-
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1 voluntary types of arrangement without any federal
2 control, whereas in Australia it is the other way
3 around. I am wondering which way your tendency is.

4 MR. MONGRAIN: We think it would have to
5 be tailored to our needs. I do not think there
6 is any other plan anywhere else that we could adopt
7 as it is.

8 MR. KUSHNER: I think we should get one
9 thing clear, Mr. Chairman. We are not suggesting for
10 a minute that there should be centralized control
11 over the borrowings of each individual municipality.
12 The control, to use that word generally, must remain
13 at the provincial level. We are just talking about
14 a central fund from which we could draw. Perhaps
15 we should contribute to it, but that is something that
16 can be discussed. If we can borrow on our own
17 resources, then not only would our credit rating be
18 greater but the national body, which may be
19 responsible, would be able to do something about the
20 international money situation. Right now they have
21 to say to us either: "Go to the market" or "Don't
22 go to the market", and we have to do the best we
23 can. The end result is hard on the national economy.

24 THE CHAIRMAN: You are centralizing all
25 your resources. You are expecting the government
26 to put the money into this bank.

27 MR. KUSHNER: Partly. For instance, there
28 has been mention made of \$50 million to \$75 million
29 a year in interest on municipal debentures --

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2 MR. KUSHNER: We suggest to the federal
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4 That is a long way from the amount of capital we
5 borrow annually. It may take several years to
6 build up the fund to the proportions required. But
7 let us get started in looking at it. So far we have
8 had difficulty in even getting a smile from the
9 authorities and their saying: "Maybe there is some
10 merit in it".

11 MR. TURPIN: If the federal government
12 has found it expedient to guarantee loans through
13 the Central Mortgage and Housing Corporation and
14 through the International Development Bank, is our
15 proposal so ridiculous, or so different from that
16 which presently exists at those levels?

17 MR. LLOYD: In this year of 1962, Mr.
18 Chairman, there is the problem of the urbanization
19 of our population that faces all of us at the
20 municipal level. That has brought with it a demand
21 for capital that did not exist before. It is
22 up to the federal government to take a more urgent
23 interest in our urban transportation problems. If
24 we are going to develop as a nation then, surely,
25 it is in the national interest to make sure that
26 money is available for all these things.

27 MR. MOONEY: We really see nothing in
28 our proposal that is too different from the Municipal
29 Improvements Act of 1938, a copy of which I have
30 and with which you are probably familiar, and what

is in that range.

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7001

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1 that law provides. We are not asking for 2 per cent
2 money that is provided for in that statute, and
3 which was the basis of the loans to be made. We do
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5 controls or control over provincial capital borrowing
6 than presently exists.



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1 We do not suggest that any municipality applying
2 for a loan would not be subject to the same criteria
3 of evaluation as the market generally applies today,
4 when it goes separately to that market for a loan.
5 We are not asking for the sluice gates to be opened
6 up at all. We are anticipating broadly the
7 same processes as operate today when a municipal
8 government goes to the money market. We believe
9 these same processes will apply. We are merely
10 suggesting there be created this single instrument
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12 borrowing, and if a municipality does not wish
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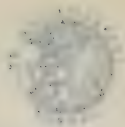
15 THE CHAIRMAN: But the interest rate
16 would be uniform irrespective of the credit worthiness
17 of the municipality?

18 MR. MOONEY: We have not said that.
19 It may reach that stage but there will be variations,
20 the variations which exist today in terms of the
21 market.

22 MR. DAWSON: The interest rates would
23 tend to be lower.

24 MR. MONGRAIN: From a national standpoint
25 it would be desirable if municipalities were brought
26 to this stage where interest rates might be
27 uniform, but we are not at that stage yet.

28 COMMISSIONER GIBSON: How would you allocate
29 the funds available -- by provinces, and with the
30 provinces each dividing it up among the municipalities?



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5 COMMISSIONER GIBSON: I appreciate the
6 sort of thing you are recommending and the desirability
7 of it, but I would like to get down to the problems
8 and practicalities of it. How would you allocate
9 funds in a situation like this? You say there would
10 be a lot of more or less fixed interest rates.
11 How would you divide it up, by provinces?

12 MR. DAWSON: It might be premature to go
13 into all those details. If a thing like this were
14 considered by the Federal Government it possibly
15 might like to set up a Commission who would know
16 about that work and work out all the details. One
17 sure thing is that we would like to have a provincial
18 body in each province and it would conform to what
19 the Commission had decided. We understand it
20 will have to be improved over a period of years.
21 We will not find a perfect instrument right away
22 or a perfect formula.

23 THE CHAIRMAN: Of course this sort of
24 thing has been done in some provinces before, and
25 is being done now.

26 MR. MONGRAIN: It is done in Alberta.

27 MR. MOONEY: We envisage this municipal
28 loan fund will operate in the national field almost
29 in the manner that the Alberta Loan Fund operates
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1 MR. DAWSON: Through the provinces.

2 THE CHAIRMAN: I am wondering whether
3 you are going to improve the situation by having
4 a national fund when it is open to the provinces.

5 MR. MONGRAIN: Not all provinces are doing
6 it. Not all of them are able to do it even if they
7 wanted to.

8 MR. DAWSON: They all have not got oil.

9 COMMISSIONER BROWN: I think you are agreed
10 right from the beginning that you are not going
11 to have as much money available as everybody would
12 desire. How then are you going to divide it up?

13 MR. LOWTHER: If the Federal Government
14 is going to borrow the money, it seems to me from
15 a working, practical standpoint -- I am not expressing
16 an opinion either for or against this -- but from
17 a practical standpoint the Federal Government, through
18 its borrowing powers, would provide the capital
19 and the only criterion necessary to entitle a
20 municipality to get its capital from this fund
21 would be prior approval by the municipal-provincial
22 agency, the same way as you have to get approval
23 now before you can proceed with a capital undertaking.

24 This would mean that potentially this
25 fund could be expected to provide as much municipal
26 capital as municipalities now provide themselves.

27 COMMISSIONER GIBSON: It is more.....

28 MR. LLOYD: Well, looking ahead to the
29 future, obviously our capital needs in the future
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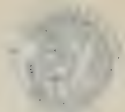
1 COMMISSIONER GIBSON: But, Mr. Lloyd, surely
2 there must be some criteria that the Federal Government
3 must apply to judge whether it is prudent to permit
4 a municipality to borrow how much and for what purpose?

5 MR. MOONEY: I have not heard it suggested
6 in any quarter that we are incapable as a nation
7 of raising sufficient capital funds to meet the
8 potential increase in municipal capital borrowing
9 for the needs that will face us in the next 10 or
10 20 years. We have indicated in our submission that
11 this is of the range of probably twice the current
12 average annual borrowing.

13 If \$250 million has been the average
14 over the past ten years, then to meet the social
15 capital requirements as envisaged by the Gordon
16 Commission Report, with which we concurred, then
17 something in the range of up to an average of
18 \$500 million will be required each year over the
19 next 10, 15 or 20 years.

20 It has not been suggested that that
21 amount of money is not available, if the municipal
22 governments require that amount of money. However,
23 there is a check in balance on municipal spending,
24 and that is the capacity of municipalities to
25 utilize that amount of money annually, to organize
26 for capital spending of the range of an average
27 of \$500 million a year.

28 As some of us envisage it, the municipalities
29 requiring capital funds would place their debentures
30 in the hands of the capital municipal loan fund and



... must apply to judge whether it is prudent to permit
a municipality to borrow how much and for what purposes?
I have not heard it suggested
in any manner that we are irresponsible as a nation
of raising sufficient capital funds to meet the
potential increase in municipal capital borrowing
for the needs that will face us in the next 10 or
20 years. We have indicated in our submission that
this is of the range of probably twice the current

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1 then the municipal loan fund, about three or four
2 times a year, would go to the market on an orderly
3 basis for whatever that amount may be. The rationing
4 of those funds is the rationing of the application
5 of the municipal governments. It would not be
6 necessary to ration the funds unless their applications
7 were severely in excess of \$500 million. Neither
8 would it be necessary for the fund administrators
9 themselves or the provinces to ration it except
10 only in terms of the demonstrable requests from
11 the municipalities based on their capacity to repay.
12 It is along that sort of line we are thinking,
13 that the fund will operate just the way the Alberta
14 Municipal Loan Fund operates.

15 MR. BEECROFT: The difficulty of rationing
16 has not prevented the Federal Government appropriating,
17 in the first instance, \$100 million for sewer
18 financing. Everybody knew the municipalities of
19 Canada needed many times that much if they were
20 going to do a job in fighting water pollution.
21 After a year or two passed, the Federal Government
22 found it was within its capability to vote another
23 \$100 million and it is now in process of allocating
24 that additional \$100 million and we do not hear
25 any complaints from the municipalities that there
26 is unfairness in the allocation of that amount
27 of money. We have confidence that the Federal
28 Government will attempt to keep this thing going,
29 and between the municipalities, the provinces and
30 the Federal Government this problem can be taken



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1 care of.

2 The problem of allocation is a serious one
3 now and it is a process which is left very much
4 to the decision of the market, and that is very
5 much more frustrating to the municipal governments
6 than the kind of system of allocation which would
7 exist if there were an orderly process of applying
8 to the market through a central agency.

9 MR. MOONEY: If the Federal Government
10 would extend sewerage loans to other municipal
11 projects, such as streets and traffic requirements,
12 and a myriad of other things that have to be done,
13 and write that into built-in legislation, we would
14 not be asking for a municipal loans fund.

15 THE CHAIRMAN: One of the reasons
16 the Federal Government concentrated on sewers
17 was that municipalities were inclined to build
18 streets and parks but they were getting into great
19 difficulty with their sewerage problems.



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THE CHAIRMAN: One of the reasons

was that municipalities were inclined to build
streets and parks but they were getting into great
difficulty with their sewerage systems.



1 They were not dealing with them. They were dumping
2 the sewerage into the rivers raw, as they are still
3 doing in many parts of my own province.

4 MR. MOONEY: But remember, Mr. Chairman,
5 they are still dumping thousands of new automobiles
6 every year onto our streets. We are going to have
7 pure water but I do not know how we are going to
8 grapple with our streets five or ten years from now
9 and much greater expenditures will be needed on
10 municipal streets and highways.

11 MR. MONGRAIN: May I come back to the
12 point raised by Mr. Beecroft? The federal government
13 has made another \$100 million available for this
14 purpose. It is true that part of this was probably
15 due to the fact that the pollution of our streams
16 ought to be looked after, but the federal government
17 said something more than that. The federal government
18 has set a target for the job to be done within a
19 certain number of years and they have promised the
20 local governments that if it is done earlier than that
21 they will wipe out twenty-five per cent of the money
22 repayments.

23 THE CHAIRMAN: They are encouraging you
24 to do a specific thing which they thought was
25 in the national interest and which you were not
26 doing.

27 MR. MONGRAIN: But we are suggesting that
28 there are other things which require to be done, and
29 to meet this serious situation we are suggesting
30 this municipal loan fund on a strictly economic



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MR. MONROE: May I come back to the

point raised by Mr. Beers? The Federal Government

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1 basis. Surely the time has come when we should look
2 at this problem instead of waiting until we have the
3 same situation as we have now with our rivers and
4 streams?

5 MR. LLOYD: I think Commissioner Leman's
6 question was a fair one to ask. This would have some
7 effect on provincial borrowing. There is no doubt
8 about that, but we must be practical. The provincial
9 governments are also going to the American market
10 and there might be some impact on that as well. I
11 think a better relationship vis-a-vis the provinces
12 and municipalities, and vis-a-vis the provinces and
13 Canada, and vis-a-vis Canada and the foreign investor
14 can come about by this kind of instrument which
15 could provide money at a better price than the
16 States and enable us to meet the obligations we are
17 faced with.

18 I know, Mr. Chairman and members of the
19 Commission, that you appreciate that we do not not
20 have the resources available to us to comprehend
21 all the intricacies of high finance in Canada but
22 we do present to you humbly, and to the best of our
23 ability, an observation and I think our report does
24 challenge you in this field. If there is some
25 useful purpose in it then it is for you to inquire
26 into it.

27 COMMISSIONER LEMAN: What you are
28 asking for is access to the cheapest
29 credit in the country?

30 MR. LLOYD: There is no question about that,



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27 COMMISSIONER LEMAN: What you are
28 asking for is access to the cheapest
29 credit in the country?
30 MR. LLOYD: There is no question about that.



1 and there is no hesitancy in saying so.

2 THE CHAIRMAN: And you are not ashamed
3 about that?

4 MR. LLOYD: No, not at all.

5 MR. MOONEY: This whole problem is not
6 merely just a Canadian problem. It is a problem
7 which municipal governments are facing everywhere.

8 THE CHAIRMAN: Oh, yes.

9 MR. MOONEY: And our submission illustrates
10 that fact. We Canadian municipal governments are
11 at a severe disadvantage actually in terms of
12 American municipal governments because of the tax
13 exemption feature which enables them to obtain their
14 capital funds much cheaper than we are able to obtain
15 funds.

16 We have not requested or suggested that
17 a similar exemption be allowed to owners of Canadian
18 municipal bonds. We take the general position that
19 we are not in favour of that because it would tend
20 to create a favoured, privileged group of investors
21 in the community. Moreover, we have some doubt
22 about the volume of that potential market so far as
23 Canada is concerned, and we refer to that in our
24 submission, but we think this proposal we have put
25 forward in part, this national loan fund idea, would
26 tend to bring us into a more equitable position in
27 terms (a) of American cities and (b) in terms of
28 Canadian cities generally across the country. Not
29 all municipal governments have equal facilities and
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1 concerned. The larger cities are in a preferred
2 position and the smaller communities, in the past at
3 any rate, have had difficulties with respect to
4 capital borrowing. We believe the time has arrived
5 when the situation should be made equitable for all
6 local government borrowing across the country,
7 somewhat within the framework of the idea we have
8 placed before you.

9 I have attended meetings in the United
10 States where the idea of an intergovernmental loan
11 corporation in the States was under discussion and
12 so, as I intimated before, it is a universal problem.
13 In last week's issue of The Economist there was quite
14 an article with reference to municipal capital
15 borrowing needs of governments in the United Kingdom.
16 These problems arise because of the new facts of
17 municipal life and the new needs of municipal
18 governments that have arisen consequent upon our
19 highly organized industrial communities.

20 COMMISSIONER MACKINTOSH: Mr. Chairman,
21 I have a couple of questions which we asked a
22 number of people across the country, and I would like
23 to put them now and receive some brief answers to
24 them. In the past few years we have had considerable
25 variations of monetary policy affecting credit and
26 rates of interest. How far in your experience have
27 these, either by reason of the higher rate of interest
28 or the unavailability of credit, actually
29 influenced the actions of municipalities in under-
30 taking capital works or postponing them?



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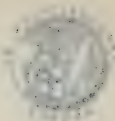


Nethercut & Young

7012

Toronto, Ontario

1 MR. MONGRAIN: I think, Mr. Commissioner,
2 that what is commonly referred to as tight money or
3 easy money policies directly may not have had much
4 impact on the work being done by municipal governments,
5 because the type of work which municipal governments
6 do is either work that has to be done or has not
7 to be done. The one type of work where it may have
8 an effect is the kind of work in which the federal
9 government participates, and I can give you one
10 example of this. In my own province of Manitoba,
11 as a result of the government policy of contributing
12 75 per cent of the capital costs of a secondary
13 school, there has been a rash of secondary schools,
14 because the local taxpayer says "I am only going to
15 pay 25 per cent for a school. I want that school now".
16 Otherwise it might have been postponed for a while.



MR. MONTGOMERY: I THINK, MR. COMMISSIONER,

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easy money policies directly may not have had much
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1 But in the ordinary orderly municipal development the
2 demand is either there or it is not, and if it is
3 I think the current interest rate has not as much
4 effect as it has on other parts of the economy. At
5 least, that is my reaction.

6 MR. MOONEY: There is another point in
7 there. I would say, Dr. Mackintosh that there are
8 four or maybe more, but there are four things that
9 happen in a tight money situation in so far as
10 municipal governments are concerned. There are
11 municipal capital works projects, largely of an
12 important nature that have to go forward, but under
13 certain circumstances certain municipal capital
14 undertakings can be and have been deferred because
15 of the high interest cost. Beyond that there has
16 been a curtailment of certain projects. That is,
17 of a series of projects they pick out two or three
18 of the five that they were hoping to go forward with.

19 Where they have gone forward with any
20 project generally speaking under tight money conditions,
21 the tendency is for municipal governments to
22 temporarily finance their cost through short term
23 runs pending a hopeful change to a lower interest
24 cost.

25 Then, of course, there is the final
26 factor. Under tight money conditions -- this is
27 a compelling factor -- this has driven, if I may
28 use that word, some municipal governments and
29 particularly the larger ones to the American market.

30 MR. LLOYD: Non essential items, Dr.



But in the ordinary orderly municipal development the demand is either there or it is not, and if it is I think the current interest rate has not as much effect as it has on other parts of the economy. At least, that is my reaction.

MR. MOONEY: There is another point in there. I would say, Dr. Mackintosh that there are four or maybe more, but there are four things that happen in a tight money situation in so far as municipal governments are concerned. There are municipal capital works projects, largely of an important nature that have to go forward, but under

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1 Mackintosh; anything that you can class as a non -
2 essential item does get deferred if one can possibly
3 get along without it.

4 This answer is broken down in this way.
5 If you want, for example, to get down to a thirty pupil
6 classroom instead of having fifty, or forty-five,
7 which is considered excessive, you look at the cost
8 of providing that service with teachers and the annual
9 maintenance charges of maintaining the service, in
10 that instance, much more so than you do at the interest
11 factor. But, on the other hand, if we are going into
12 a share cost capital improvement such as a highway
13 in respect of which the maintenance cost is not so
14 heavy, you do not have to provide a certain number of
15 people at salaries per unit of capital employed for
16 the project, you might tend to defer it, or forestall.
17 You cannot help but say to yourself, if you have to
18 pay 5.7 per cent interest on what we are borrowing
19 and we are held down to a 20 year term on a thing
20 that is going to have a benefit for 40 or 50 years,
21 the city council will have to go slow. When it sees
22 this interest rate of 5.7 per cent, they realize
23 that they have lived long enough to know that there
24 was a time when you could borrow at 3.57 per cent.
25 This has happened within my time and since the end
26 of the war. Despite the overtures that have been
27 made from time to time by national governments and
28 national parties -- they are all alike in this field
29 -- that they are doing these things to ease the impact
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1 lot of them and say that none of their policies have
2 brought that desirable condition about.

3 MR. TURPIN: Again if I can give an
4 example in respect to my city, and I think you want
5 examples that can be placed before you, one-third of
6 our total income today goes toward the servicing of
7 our debt in Hull on the one hand. On the other
8 hand we are faced with the necessity of annexing
9 adjoining territory to provide room for an expanding
10 population and growing city. This means that we
11 have to increase our capacity of making water available
12 of taking sewage away and treating it. At the council
13 level we just wonder if we should go ahead with these
14 annexations because, at the cost of borrowing today,
15 we think that it might be better to delay and perhaps
16 wait some years. We feel that the load on our
17 property owners is quite heavy now and that it might
18 not be fair to increase it. That is what we are
19 faced with today in our city.

20 COMMISSIONER MACKINTOSH: Can I conclude
21 that while the effect differs on various types of
22 projects, your judgment is that the rate of interest
23 does enter into decisions?

24 MR. MONGRAIN: Definitely.

25 MR. DAWSON: Oh, yes.

26 MR. KUSHNER: Yes.

27 COMMISSIONER MACKINTOSH: And probably
28 most acutely when it is added in with all other
29 cost which effect the tax rate, is that a fair
30 statement?



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1 MR. LLOYD: This might not be the position
2 taken by an administrator, but a man who gets elected
3 to public office looks at everything that increases
4 the tax rate on his community. He is much more
5 conscious of every element of cost. He is aware that
6 his opponent will attack him in this regard. The
7 laddie who sits in an administrative office of a
8 municipal government is not exposed to that same kind
9 of thing and he might not take that view, that
10 we should be making this kind of inquiry. I do
11 say to you that an elected representative, if he has
12 any sense of responsibility at all in respect of the
13 matter, does take into account the impact in the long
14 run over the years ahead, and in cities where you
15 have commissioners of finance and in many cities,
16 city managers such as we have in Halifax, they are
17 looking ahead ten years, and I think you will find
18 that they are concerned about this interest factor
19 much more so than appears on the surface.

20 MR. TURPIN: Some municipalities in Quebec
21 are faced today with a very difficult dilemma today.
22 They are forced by the provincial authorities to
23 treat their sewage, and the health department refuses
24 to accept any new subdivisions unless we do take
25 steps to clean our sewage. In a case of this kind
26 we have no choice even though we have to pay perhaps
27 7 or 7½ per cent. We must go ahead, otherwise the
28 whole building industry will be affected in our
29 area. In a case of that kind we have to pay whatever
30 rate the market charges.



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1 MR. KUSHNER: I think you put it quite
2 correctly, Mr. Commissioner, when you said that it is
3 a fact that we defer those things we can defer.
4 Unfortunately there are services we cannot hold back
5 and we must accept high interest rates as a fact of
6 life.

7 MR. LLOYD: And we are stuck for twenty
8 years.

9 THE COMMISSIONER: Well, that concludes
10 the discussion, gentlemen. I may say it has been a
11 very interesting and active one. We have, each one
12 of us, learned a great deal I think about your view-
13 points in respect of these problems. It has been
14 all of very great benefit to us. I wish to thank you
15 for appearing before us and for your very carefully
16 prepared brief which is full of interesting material.
17 It has been a very great pleasure to have had you
18 with us today.

19 MR. MONGRAIN: Mr. Chairman, my colleagues
20 have asked me to thank you and your fellow
21 Commissioners for inviting us and allowing us to
22 partake in this very interesting discussion. It has
23 been said very often that mayors are close to the
24 people. This means that we like sometimes to have
25 the opportunity to let off a little steam, and you
26 have given us a wonderful opportunity in this regard
27 this morning. I think we should thank you all for
28 that opportunity.

29 THE COMMISSIONER: Thank you very much,
30 Mr. Mongrain.



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correctly, Mr. Commissioner, when you said that it is

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the discussion, gentlemen. I may say it has been a

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of us, learned a great deal I think about your view-

points in respect of these problems. It has been

all of very great benefit to us. I wish to thank you

for appearing before us and for your very carefully

prepared brief which is full of interesting material.

It has been a very great pleasure to have had you

with us today.

MR. MONGRAIN: Mr. Chairman, my colleagues

have asked me to thank you and your fellow

Commissioners for inviting us and allowing us to

partake in this very interesting discussion. It has

been said very often that mayors are voices to the

people. This means that we like sometimes to have

the opportunity to let off a little steam, and you

have given us a wonderful opportunity in this regard

this morning. I think we should thank you all for

THE COMMISSIONER: Thank you very much.



Nethercut & Young

7018

Toronto, Ontario

We shall now adjourn until 9:15 tomorrow morning when we shall hear the brief of the Province of Ontario.

(Adjournment).



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(...)

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Royal Commission on Banking and Finance

CANADIAN FEDERATION OF MAYORS AND MUNICIPALITIES

Hearings
held at
OTTAWA

Vol.

50A

Date.

OCT. 29, 1911



Official Reporters
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Toronto, Ont.



Nethercut & Young

Toronto, Ontario

SUBMISSION TO THE ROYAL COMMISSION

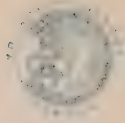
ON BANKING AND FINANCE

by the

CANADIAN FEDERATION OF MAYORS

AND MUNICIPALITIES

OTTAWA,
October 29th, 1962.



SUBMISSION TO THE ROYAL COMMISSION

ON BANKING AND FINANCE

by the

CANADIAN FEDERATION OF MAYORS

AND MUNICIPALITIES

OTTAWA,
October 20th, 1962.



RECOMMENDATIONS AND SUGGESTIONS
of the

CANADIAN FEDERATION OF MAYORS AND MUNICIPALITIES

A. National Municipal Loan Fund

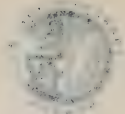
1. The municipalities' primary contention is that, in view of the volume and importance of basic community needs, municipal capital works are of equal priority with those of the senior governments. It is therefore fair and equitable to enable municipal governments to have the same advantages as senior governments in respect of the capital market.

2. Arising from this basic contention regarding equality of opportunity in the capital market, and in view of the great volume of requirements anticipated for community development, the Federation's main recommendation is that the Federal Government, co-operation with the Provinces, should establish a national Municipal Loan Fund (or Bank) for the purpose of facilitating the capital borrowing operations of municipal governments.

3. The case for the Loan Fund is considered at some length in the last two sections of this submission and is further supported in the detailed analysis of present municipal financing in the sections on revenue, expenditures, taxation and borrowing.

4. The establishment of such a Fund would not preclude any municipality from borrowing in the private market. It is nonetheless the general view of the municipalities that a national municipal loan fund is essential to make it easier for municipalities to raise money and to reduce interest and marketing costs.

5. As one means of implementing the basic



A National Municipal Loan Fund

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recommendation is that the Federal Government, co-operating

with the Provinces, should establish a National Municipal

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5. As one means of implementing the basic



1 recommendation concerning a municipal loan fund,
2 the Federation recommends that the Federal Government
3 should apply the revenues received from the taxation
4 of interest on municipal bonds to municipal loans
5 contracted through the proposed national municipal
6 loan agency.

7 Other Recommendations

8 6. As a further aid to municipalities, in relation
9 to their revenue and borrowing needs, the Federation
10 recommends

11 (a) that the chartered banks, in setting interest
12 rates on short-term loans to municipal
13 governments for such purposes as the anticipation
14 of taxes, government grants, and the receipt
15 of loan money on capital borrowing and other
16 such well-secured risks, should take account
17 not only of the nature of such well-secured
18 loans but of the high credit standing of
19 the municipal governments;

20 (b) that provincial governments, investors
21 and investment dealers should modify the
22 rigid and somewhat artificial criteria --
23 whether statutory or "rule of thumb" --
24 which now stand in the way of some expansion
25 of municipal borrowing and raise borrowing
26 costs unduly.

27 Suggestions

28 7. There are a number of questions concerning
29 which the Federation does not feel sufficiently
30 informed to make precise recommendations but which



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Other Recommendations

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(a) that the chartered banks, in setting interest rates on short-term loans to municipal governments for such purposes as the anticipation of taxes, government grants, and the receipt of loan money on capital borrowing and other such well-secured risks, should take account not only of the nature of such well-secured loans but of the high credit standing of the municipal governments;

(b) that municipal governments should modify the rigid and somewhat artificial criteria -- whether statutory or "rule of thumb" -- which now stand in the way of some expansion of municipal borrowing and raise borrowing costs unduly.

7. There are a number of questions concerning

which the Federation does not feel sufficiently informed to make further recommendations.



1 deserve intensive inquiry by the Royal Commission,
2 followed by appropriate recommendations. These questions
3 are discussed in this submission and may be summarized
4 as follows:

5 (a) The withholding tax on foreign-pay Canadian
6 bond issues has raised the cost of borrowing
7 abroad. In view of recent changes in Canada's
8 economic situation, the removal of this tax
9 may now be warranted.

10 (b) In the United States, municipal taxes
11 and mortgage interest paid by home-owners
12 are exempt from the federal income tax.
13 In Canada, on the other hand, the payment
14 of income tax on amounts paid in municipal
15 taxes represents double taxation. If such
16 payments were exempt from income tax, the
17 municipalities could then make fuller use
18 of the field of real property taxation which,
19 according to prevailing theory, is reserved
20 for their use in raising revenue. The taxation
21 of home mortgage interest in Canada serves
22 as a further limitation on the municipalities'
23 power to tax real property to pay for local
24 services.

25 (c) Present federal tax law puts municipalities
26 and other governments at a disadvantage in
27 comparison with corporations who can charge
28 bond interest as an expense. This means,
29 in effect, that corporate taxes are reduced
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(c) Present federal tax law puts municipalities

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Nethercut & Young

-A. 5 -

Toronto, Ontario

1 Furthermore, investors pay full income
2 tax on interest from bond issues, whereas
3 a tax credit is allowed on dividends from
4 Canadian common and preferred stocks. More
5 equitable tax treatment would broaden the
6 market for municipal and other government
7 bond issues.

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FOREWORD

(a) The Canadian Federation of Mayors and Municipalities is a national organization created and maintained by the municipal governments of Canada for the purpose of nation-wide inter-municipal co-operation and common undertakings (1). It was founded on the proposition that while local governments operate within the framework of the law and tradition provided by their own provinces, municipal governments also have many problems which can best be approached through nation-wide study and concerted action.

(b) In the pursuit of its purposes the Federation convenes an annual conference and maintains a year-round program of enquiry and research into various municipal problems and acts as a central repository for the exchange of information on matters of general municipal interest and concern.

(c) Among these matters -- of highest concern -- is the central problem of municipal finances The problem goes back many years and may be thought of as having three facets:

1. THE PAST Many older urban communities and their local governments are burdened with an unresolved backlog of unmet capital needs

(1.) The Federation is comprised of some 350 directly affiliated municipal corporations -- cities, towns, villages, districts, townships, parishes, county and metropolitan municipalities -- and the provincial unions or associations of municipalities in all provinces. It embraces within its membership, either directly or indirectly, the total aggregate of urban governments in Canada.



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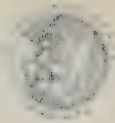
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1 deriving from an earlier period, in some
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3 50 and more years To this has been
4 added an accumulation of postponed local
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6 maintenance which piled up during the depression
7 and war years (1930-1945) There is the
8 further factor that much of the existing
9 municipal plant and mechanical facilities
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11 obsolescent.

12 2. THE PRESENT Municipal governments
13 are therefore confronted with this backlog
14 of unmet requirements plus the pressing
15 need for extended and modernized municipal
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17 by rapid urban growth and public demand for
18 new and improved municipal services
19 The redevelopment of the older sections of
20 cities and towns has become both an economic
21 and functional necessity Since 1945
22 there has been a substantial volume of
23 municipal capital works and improvements,
24 but it has been far short of the demonstrable
25 need The annual municipal costs of these
26 undertakings have pyramided the local debt
27 burden to a disproportionately high percentage
28 of the annual revenues available to municipal
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30 3. THE FUTURE Municipal governments



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3. THE FUTURE . . . Municipal governments



1 must also anticipate the continuing and
2 foreseeable growth and development needs which
3 inevitably every community must contend with
4 The volume and nature of the foreseeable urban
5 growth and re-development need within the
6 next ten to twenty years will entail an
7 outlay of social capital that will be beyond
8 the debt-carrying capacity of municipal
9 governments to afford within the framework
10 of their present tax and revenue structure.

11 (d) Municipal governments are aware of these
12 needs. They are also aware of the crippling financial
13 limitations which prevent or delay the carrying out
14 of desirable and, in many cases, urgent municipal
15 improvements. While they are minded to get on with
16 the job of making our cities and towns functionally
17 more efficient as well as to provide those community
18 amenities which we have come to associate with modern
19 standards of good urban living, their ability to do so
20 is singularly dependent on a rigid taxation revenue
21 base that severely limits major debt obligations much
22 beyond that to which they are already committed.

23 (e) The problem of the municipal taxation and
24 revenue structure is a matter which the provincial
25 governments will have to contend with, but the related
26 problem of the borrowing requirements of municipal
27 governments has implications which are nation-wide
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1 a matter of considerable urgency.

2 (f) In seeking remedial measures from the senior
3 governments, municipalities are at a disadvantage as
4 a result of the serious under-representation of urban
5 voters in both federal and provincial legislatures.

6 The allocation of funds by senior governments for
7 capital development projects reflects a built-in bias
8 against the requirements of the rapidly growing urban
9 areas. The citizens of our urban communities must
10 therefore not only provide much of the money for rural
11 development projects of the federal and provincial
12 governments, but also carry the cost of their own
13 municipal improvements and public works.

14 (g) Municipal finance problems can be accentuated --
15 and frequently are -- by the fiscal and monetary policies
16 of the Federal Government. The more significant effects
17 can be listed as follows:

18 1. The over-riding dominance of the

19 Federal Government in the long-term
20 bond market means that municipalities
21 have to compete for funds -- at a
22 disadvantage -- in a limited market.

23 2. Federal action to restrict credit may

24 mean a cut-back in capital spending for
25 some municipal public works. For other
26 vitally needed municipal undertakings
27 it imposes a higher interest cost.

28 3. The policies of the Federal Government
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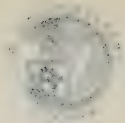
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3. The restriction of the Federal Government in promoting private capital investment, such as housing and other federally-



facilitated developments, while of
benefit to the economy as a whole,
nonetheless place a burden upon the
municipalities to provide the services
required by such undertakings which
may place a strain on the credit of
the municipality.

(h) It is because of such considerations that
the Federation -- on behalf of municipal governments --
places the following general summary of the municipal
finance and related capital borrowing problems before
the Royal Commission on Banking and Finance.



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1 B. CONSTITUTIONAL BACKGROUND AND SYSTEM OF

2 MUNICIPAL GOVERNMENT IN CANADA

3 (a) Under the British North America Act, the
4 municipalities are the creations of the Provincial
5 Governments. The several provinces, therefore, have
6 complete jurisdiction and control over their respective
7 organizations of municipal government ... The division
8 of the constitutional powers, rights and privileges
9 between the Federal and Provincial Governments, is
10 contained principally in Sections 91-92-93 of the
11 Act.

12 Section 91 gives the Federal Government
13 certain financial powers which have an indirect
14 impact on Provincial, and, thereby, Municipal
15 Government Finance and Administration.

16 Section 92 (Par. 8) establishes the authority
17 of the Provincial Governments to create local
18 governments and to delegate to them certain
19 powers vested in the Provincial Governments
20 by the B.N.A. Act.

22 Section 93 gives provincial legislatures
23 exclusive authority to make laws in relation
24 to education, subject to certain safeguards
25 for the rights of religious minorities.

26
27 (b) Municipal government in every province of
28 Canada existed in elementary form prior to Confederation.
29 It is understandable, therefore, that the provision
30 of the British North America Act that gave complete



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municipalities are the creations of the Provincial Governments. The several provinces, therefore, have complete jurisdiction and control over their respective organizations of municipal government. . . . The division of the constitutional powers, rights and privileges between the Federal and Provincial Governments is contained principally in Sections 91-95-96 of the

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(b) Municipal Government in every province of Canada existed in elementary form prior to Confederation. It is understandable, therefore, that the provision of the British North America Act that gave complete



1 jurisdiction over "municipal institutions" to the
2 provinces has resulted, quite naturally, in dissimilarity
3 in the organization of local government both within
4 and as between the several provinces. This stems
5 not only from the difference in the beginnings of
6 municipal governments and their subsequent independent
7 growth in each province, and also from variations
8 in requirements arising out of geographical and population
9 differences.

10 (c) The situation remains in a state of flux,
11 with constant amendment of provincial Acts and municipal
12 charters in the attempt to solve old problems and to
13 meet new ones. Just as the call for new and additional
14 services has enlarged the scope of federal and provincial
15 activities, the municipalities have had to assume
16 responsibilities unheard of, or considered beyond their
17 sphere of activity, a few decades ago. As a result,
18 amendments to Provincial-Municipal Acts have varied
19 from those enlarging the powers and the boundaries
20 of municipalities, to those establishing closer
21 provincial control and greater financial aid.

22
23 C. SERVICES RENDERED BY MUNICIPAL
24 GOVERNMENTS

25 (a) Generally speaking, a municipality can be
26 defined as being "an organization of citizens locally to
27 provide for themselves collectively services which
28 could not so well be provided for themselves
29 individually."

30 (b) In the early days of local government,

and as between the several provinces. This shows

not only from the difference in the beginning of

municipal governments and their subsequent independent

growth in each province, and also from variations

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in the early days of local government.



1 municipal functions and services coincided pretty
2 much with the express conditions of this definition.
3 Demands for services were modest, dictated largely,
4 if not wholly, by the local citizenry who were the sole
5 users or beneficiaries, so to speak, and by and large
6 the costs of these services were met out of purely
7 local resources.

8 (c) The situation today, however, is vastly
9 different. The range of services provided by
10 municipalities has been greatly extended and, by their
11 nature, are more costly than in an earlier period.
12 In addition, certain present-day services are dictated
13 not purely by local demand, but stem from Federal
14 and/or Provincial action or authority. Moreover, the
15 nature and extent of some municipal services and
16 facilities are necessary because of "metropolitan" and
17 "regional" user requirements. As a consequence, the
18 benefits from certain services do not accrue solely
19 to the local citizens of a community nor do they stop at
20 its territorial boundaries.

21 (d) For these and other reasons the municipalities
22 have, over the years, become more and more dependent
23 upon provincial governments for assistance in the form
24 of grants, subsidies and contributions towards the cost
25 of maintaining the expanding and increasing variety
26 of municipal services.

27 Service Functions

28 (e) Municipal services today fall within seven
29 broad functional categories, e.g.:



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of grants, subsidies and contributions towards the cost
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(e) Municipal services today fall within seven
broad functional categories, e.g.:



1. Protection to Persons and Property:

Fire and police protection; law enforcement (Local Courts and contributions for joint civil or criminal justice Courts;) corrective institutions (gaols, detention homes, reform institutions, etc.); protective inspection (building, plumbing, electrical, etc., inspection); street lighting; destruction of pests.

2. Public Works:

Streets and roads (including bridges, viaducts, expressways, subways and tunnels, airports, ferries, grade crossing eliminations); sidewalks, waterways (dredging, deepening and widening non-navigable streams or rivers, etc.); snow and ice removal; drainage (other than sewers); urban renewal and re-development (slum clearance, public housing, traffic improvements, etc.).

3. Sanitation and Waste Removal:

Storm and sanitary sewers; sewage treatment and disposal; street cleaning and flushing; garbage and waste collection and disposal.

4. Health and Social Welfare:

Health regulation and inspection; control of communicable diseases; maternal and child health; clinics and laboratories; medical, dental and allied services (including nursing and pharmaceuticals); hospital care (including grants); administration of aid to aged and



Fire and police protection; law enforcement

civil or criminal justice; correctional institutions (prisons, reformatory homes, reformatories, etc.); protective legislation (building, plumbing, electrical, etc.); inspection; street lighting; sanitation of pests.

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blind persons; and to unemployables and unemployed employables; mothers' allowances; child welfare; charitable and other welfare institutions.

5. Education:

Elementary, secondary and technical or vocational school education.

6. Recreation and Community Services:

Recreational services such as community centres, tennis courts and golf courses, swimming pools and beaches, skating rinks and arenas, amusement parks and playgrounds; and community services such as libraries, museums, art galleries, exhibitions and fairs, parks, tourist camps, convention halls, civic theatres, local airports, off-street parking, local port facilities, and markets.

7. Utility Services:

Water, transportation, light and power.

Overhead Services

(f) Superimposed upon the foregoing are the "overhead" services, the Executive, Legislative and Administrative branches of municipal government, which do not in themselves represent a direct service to the public but rather a service to the various other departments so that they, in turn, may carry out the activities of their respective responsibilities as efficiently and economically as possible. These include the offices of elected representatives and appointed permanent officials and the general expenses for



...the welfare, charitable and other welfare ...

Elementary, secondary and vocational education ...

...recreational services such as swimming ...
 ...pools and beaches, skating rinks and arenas ...
 ...amusement parks and playgrounds ...
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 ...and galleries, exhibitions and fairs, parks ...
 ...beach camps, convention halls, clubs ...
 ...theaters, local stadiums, off-street parking ...
 ...local port facilities, and markets ...

Water, transportation, light and power.

(1) Superimposed upon the foregoing are the

"overhead" services, the Executive, Legislative and

Administrative branches of Municipal Government,

which do not in themselves represent a direct service

to the public but which a service to the various other

agencies so that they, in turn, may carry out the

activities of their respective responsibilities as

the offices of elected representatives and appointed



D. SOURCES OF MUNICIPAL REVENUE

Real and Other Property Taxes

(a) The major part of municipal revenue is derived from the real property tax which is universally employed in all of the ten provinces. In five provinces, personal property is also taxed. The tax on personal property (such as household goods and effects, stocks or bonds, automobiles, machinery and other equipment), while used quite extensively in the early years of local government, has generally lost favour. It is difficult to administer and since it is also usually subject to a wide variety of exemptions, many inequities arise. The revenue yield from it is not relatively important.

(b) In addition, larger municipalities (and some smaller ones) also have some form of a tax on business, over and above the real property tax. The business tax may be based upon the value of real property or a proportion thereof or it may be otherwise independently calculated, such as on a value based on the number of square feet of floor space occupied, rental value or gross sales or turn-over volume of business.

(c) Some cities, in two provinces, also tax "households" or "occupancy" of households based on either the real property value or the rental value of the premises occupied. It applies to both owners and tenants in some instances, and to tenants only in others.

Other Taxes

(d) In addition to the taxes based on property and other types of assessed valuations, other sources



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(c) Some cities, in two provinces, also tax "households" or "occupancy" of households based on either the real property value or the rental value of the premises occupied. It applies to both owners and tenants in some instances, and to tenants only in others.

Other Taxes

(d) In addition to the taxes based on property, there are other types of assessed valuations, other sources



1 of taxation employed by municipalities are:

2 The Poll Tax -- a capitation or head tax, levied usually
3 only on male inhabitants, but within prescribed
4 limitations, although sometimes including females;
5 the Amusement Tax -- a tax on admissions to certain
6 prescribed forms of amusement; and the Sales Tax --
7 a tax on sales of goods or commodities.

8 (e) The municipal sales tax is employed only in two
9 provinces and in each instance the tax is administered
10 and collected by the Province. The amusement tax also
11 is employed only in two provinces. In one province
12 the tax is imposed by provincial statute but collected
13 by the municipalities which retain part for their own
14 use and the remainder is paid over to the province.
15 The amusement tax is not an important source of municipal
16 revenue.

17 Miscellaneous Revenues

18 (f) Other revenues of municipalities, aside from
19 grants and subsidies from other governments, are derived
20 from a variety of sources: Licenses and Permits
21 prescribed mainly for the purpose of regulation and
22 control, such as for professional and business
23 activities, places of amusement, vehicles, animals,
24 etc.; Rents, Concessions and Franchises and Service
25 Charges, for the use or provision of public facilities;
26 and revenues derived from the operation of various
27 kinds of Recreational and Community Service activities.

28 Municipal Utilities

29 (g) Utility services such as for water, trans-
30 portation, light and power, also constitute an important



1 municipal function, although (except for water) they
2 are functions mainly in the larger urban communities.
3 Utilities are usually operated on a self-sustaining
4 basis, the charges to the customer or user thereof being
5 based (generally speaking) on the cost of operation,
6 the utility plant and equipment, including overhead,
7 depreciation and other fixed charges. There are
8 instances, however, where this is not so, and also
9 instances where the rates for utility services are
10 intentionally fixed to yield a surplus for general
11 municipal purposes.

12 (h) Accordingly, only the net profit or loss
13 arising from the operation of the utilities, to the
14 extent that such may be permitted or determined by
15 law, is reflected in most municipal budgets.

16 Government Grants

17 (i) Not the least important source of municipal
18 revenue is in the form of government grants. These
19 have been increased and extended in recent years and are
20 now an established part of our system of municipal
21 finance. In fact they constitute (in most, but not all
22 provinces) the second largest source of municipal
23 revenue.

24 (j) The nature and extent of present-day grants
25 varies from province to province as also does the purpose
26 for which the grants or contributions are made. Also,
27 there is wide variation in the basis established for
28 administering or determining the amount of grants to
29 be paid in any year, such as grants based on assessment,
30 per capita grants, shared-revenues, shared-costs of



...tion, although (except for water) they are functions mainly in the larger urban communities.

...the charges to the customer or user thereof being based (generally speaking) on the cost of operation, the utility plant and equipment, including overheads, depreciation and other fixed charges. There are instances, however, where this is not so, and also instances where the rates for utility services are intentionally fixed to yield a surplus for general municipal purposes.

(b) Accordingly, only the net profit or loss arising from the operation of the utilities, to the extent that such may be permitted or determined by law, is reflected in most municipal budgets.

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(2) The nature and extent of present-day grants varies from province to province as also does the purpose for which the grants or contributions are made. Also, there is wide variation in the basis established for administering or determining the amount of grants to



services, per diem grants and grants-in-lieu of taxes.

Exemptions and Tax Burden

(k) The relative burden of municipal taxation as between provinces or municipalities may be affected by a number of factors. First, and probably the most important, is the extent and nature of exemptions from property or other taxes based on assessed valuations. These include the statutory exemptions of Government, Religious, Educational and Charitable Institutional property and that of private business or enterprise where such is wholly or partially exempted by statute in western provinces.

(l) In addition, there are the exemptions arising from the granting of a "fixed assessment" or a "fixed tax", mainly to industry and housing projects; the right to assess property at only a fixed or stated percentage of full value which results in an exemption of the remaining portion; or those arising from authority to levy taxes on less than the gross assessment or on less than the maximum valuations which may be taxed, as the case may be.

(m) These factors, therefore, affect the municipal tax base and also result in incomparabilities in the relative burden of taxation, depending on the basis of the assessment or the extent that the different jurisdictions tax the assessed valuations of real or other property, etc. Similarly, these same factors affect the comparability of "mill rates".

(n) A further factor affecting the relative burden of municipal taxation in the several provinces is the



...the grant and present value of taxes.

(c) The relative burden of municipal taxation on between provinces or municipalities may be affected by a number of factors. First, and probably the most important, is the extent and nature of exemptions from property or other taxes based on assessed value. These include the statutory exemptions of government, religious, educational and charitable institutions, property and that of private business or enterprises where such is wholly or partially exempted by statute in various provinces.

(1) In addition, there are the exemptions arising from the granting of a "fixed assessment" or a "fixed tax", mainly to industry and housing projects; the right to assess property at only a fixed or stated percentage of full value which results in an exemption of the remaining portion of the value existing from authority to levy taxes on less than the gross assessment or on less than the maximum valuation which may be taxed, as the case may be.

(m) These factors, therefore, affect the municipal tax base and also result in inequities in the relative burden of taxation, depending on the basis of the assessment or the extent of the different jurisdictions tax the assessed valuations of real or personal property. A further factor affecting the relative burden is the assessed value of "mill rates".

(n) A further factor affecting the relative burden is the assessed value of "mill rates".



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Toronto, Ontario

1 variation that exists in the distribution of
2 responsibility for administering and maintaining
3 services as between the separate provinces and their
4 municipal governments, and also the amount and extent
5 of provincial grants or subventions towards the cost
6 of services administered by the municipalities.





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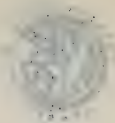
E. REVENUES OF MUNICIPAL GOVERNMENTS AND TRENDS

- (a) The aggregate net revenues of municipal government (excluding gross debenture issues) increased in actual dollars from \$294 million in 1933 to \$1550 million in 1959.... The various sources of municipal revenues during this period were as follows:

REVENUE SOURCES	YEARS (MILLION OF DOLLARS)					
	1933	1939	1946	1951	1956	1959
A. TAXATION						
INCOME TAXES	4	4	-	-	-	-
GENERAL SALES	-	5	12	27	51	74
OTHER SALES	-	-	-	2	3	3
REAL AND PERSONAL PROPERTY	231	243	275	531	860	1196
OTHER TAXES	18	23	29	10	10	8
TOTAL	253	275	316	570	924	1281
B. DIVERSE SOURCES						
PRIVILEGES, LICENSES, PERMITS	5	7	9	13	20	25
GOVERNMENT ENTERPRISES	6	10	16	29	35	45
OTHER LOCAL REVENUES	30	25	34	48	78	108
TOTAL	41	42	59	90	133	178
C. GRANT AND SUBSIDIES						
PROVINCIAL GOVERNMENTS	-	5	7	24	52	91
D. RECAPITULATION						
A. TAXATION	253	275	316	570	924	1281
B. OTHER THAN TAXATION	41	42	59	90	133	178
C. PROVINCIAL SUBSIDIES, Etc.	-	5	7	24	52	91
TOTAL	294	322	382	684	1109	1550

Comment

- (b) The above table is in actual dollars and, therefore, does not reflect the relative change in price levels during the period.... While there is no price deflator or index which can be satisfactorily applied to the municipal price sector, it is reasonable to assume that the purchasing power of a 1959 municipal dollar compared with a pre-war 1933 dollar was about 40 cents.
- (c) If we accept this estimate (some would argue it is greater and some would contend it is less), then the overall conclusion to be drawn from the above table is not that municipal purchasing power increased 500% between 1933 and 1959
- from approximately \$300 million to \$1550 million -
- but, rather, the increase in relative purchasing power was about 100%
- from \$300 million to 40% of \$1550 million; or \$620 million.



(a) The percentage net revenues of municipal government (excluding from dependent issues) increased in 1939 from 1938 million in 1937 to 1939 million in 1939.... The various sources of municipal revenues during this period were as follows:

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(d) Bearing in mind the relative purchasing power of the pre-war and post-war municipal revenue dollar, the trends indicated by the above table can be summarized as follows:

1. The major increase in revenue has been from the taxation of real and personal property: from \$231 million in 1933 to \$1196 million in 1959 As the table indicates, revenue from property taxation did not change materially during the depression and war years. The post-war program of new housing construction had its first impact on municipal revenues in 1946 and during subsequent years has been an increasing source of municipal tax income. New industrial, commercial and institutional construction has also added a large and growing volume of property tax revenue. In addition, most municipalities now re-assess property for tax purposes at recurrent periods and the higher assessed values are also taxed at a higher mill rate The property tax continues to be the mainstay of municipal finance and over the period there has been no significant change in its relative importance. In 1933, it accounted for approximately 78.5 per cent of the aggregate of all municipal revenues and, in 1959, it accounted for 77.1 per cent, a decline of 1.4 per cent.
2. A municipal income tax imposed by Montreal, Saint John and Moncton was discontinued in 1943



the trends indicated by the above table can be summarized as follows:

1. The major increase in revenue has been from the taxation of real and personal property; from \$281 million in 1933 to \$1196 million in 1959.... As the table indicates, revenue from property taxation did not change materially during the depression and war years. The post-war program of new housing construction had its first impact on municipal revenues in 1946 and during subsequent years has been an increasing source of municipal tax income. New industrial, commercial and institutional construction has also added a large and growing volume of property tax revenue. In addition, most municipalities now re-assess property for tax purposes at recurrent periods and the higher assessed values are also taxed at a higher mill rate... The property tax continues to be the mainstay of municipal finance and over the period there has been no significant change in its relative importance. In 1933, it accounted for approximately 73.5 per cent of the aggregate of all municipal revenues and, in 1959, it accounted for 77.1 per cent, a decline of 1.4 per cent. A municipal income tax imposed by Montreal, Saint John and Moncton was discontinued in 1943



1 as a requirement of the Federal-Provincial
2 Tax Rental Agreements. At the time it was
3 discontinued, it was producing approximately
4 \$4 million annually.

5 3. Municipal sales taxes were first imposed
6 in the Montreal metropolitan area.
7 Subsequently, other municipalities have resorted
8 to their use but, mainly, in the Province of
9 Quebec. In 1959, they produced an aggregate
10 revenue of \$77 million.

11 4. There has been little change in other sources
12 of municipal revenue such as privileges,
13 licenses and other miscellaneous items.
14 Municipally-owned utilities have produced
15 small but growing surpluses. The only
16 exceptions -- and these mainly since the end
17 of the war -- have been local bus and transit
18 systems. While some have shown modest operating
19 surpluses, most of them are marginally operated
20 and a number have experienced recurrent annual
21 deficits.

22 5. Some municipalities are now imposing service
23 charges for such municipal services as sewers,
24 snow removal, etc. However, the practice
25 is not general although the trend is increasing.

26 6. The most significant new factor in the municipal
27 revenue structure is the increasing extent
28 to which provincial subsidies and grants have
29 become a built-in feature. In 1939, provincial
30



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Tax Rental Agreement. At the time it was
concluded, it was providing approximately
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Subsequently, other municipalities have resorted
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Quebec. In 1959, they produced an aggregate
revenue of \$77 million.
There has been little change in other sources
of municipal revenue such as privileges,
licenses and other miscellaneous items.
Municipally-owned utilities have produced
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of the war -- have been local bus and transit
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deficits.
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is not general although the trend is increasing.
The most significant new factor in the municipal
revenue structure is the increasing extent
to which provincial subsidies and grants have
become a built-in feature. In 1939, provincial



grants and subsidies amounted to approximately \$5 million. In the subsequent years such payments have continued to increase and in 1959 they aggregated \$91 million.

F. THE BURDEN OF MUNICIPAL TAXATION

(a) It has been suggested that municipal governments are not fully utilizing the property tax as a means to increase local revenues. This view is not shared by municipal administrators who feel that, generally speaking, property is now being taxed at a level beyond which it would be dangerous to go.

(b) A recent study by Prof. Irving Jay Goffman (1) throws an interesting light on this question. The purpose of the study was "to estimate the amount of Canadian taxes paid by typical Canadian families at different income levels". In the aggregate, it was estimated that just over \$6 billion in taxes was paid by Canadian persons to the three levels of government in 1957. Of this, about \$4.2 billion went to the Federal Government, \$831 million to the provinces and \$903 million to local governments.

(c) With respect to the municipal tax burden, Prof. Goffman's estimates are significant By using \$4000 as the dividing line between "low" and "higher" incomes his study indicated that 25 per cent of the total tax collections of all governments came from the low

(1) "The Burden of Canadian Taxation" by Irving Jay Goffman, published by the Canadian Tax Foundation, July 1962.



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1 income tax-payers who constitute 57.5 per cent of the
2 approximately 5 million taxpayer units covered by the
3 survey. By level of government this income group
4 contributed ~~22.8~~ 22.8 per cent of the federal revenues,
5 25.8 per cent of the provincial revenues and 31.4 per cent
6 of the funds raised by local governments from which
7 it can be concluded that the lower income group have a
8 greater relative importance to the fund raising activities
9 of municipal governments than have the higher income
10 groups.

11 (d) The \$4000 to \$7000 "middle" income group
12 accounted for 34.6 per cent of the aggregate of all taxes
13 and by level of government they contributed 34.4 per
14 cent of the federal revenues, 34.3 per cent of the
15 provincial and 35.5 per cent municipal Taken
16 together, the lower and middle income groups (\$0 to
17 \$7000) accounted for 59.5 per cent of the aggregate
18 of all taxes and by levels of government their
19 contribution was 57.3 per cent federal, 60.0 per cent
20 provincial and 69.6 per cent municipal.

21 (e) Still using Prof. Goffman's estimates we find
22 that the \$7000 and over income group paid 40.5 per cent
23 of the aggregate of all taxes. The percentage paid to
24 each level of government by this income group was
25 42.7 per cent federal, 40.0 per cent provincial and
26 30.4 per cent municipal In effect, roughly 70
27 per cent of all municipal taxes is collected from those
28 with incomes of less than \$7000.

29 (f) Insofar as local property taxes are concerned
30 this income group accounts for approximately 30 per cent



(1) Insofar as local property taxes are concerned this income group accounts for approximately 30 per cent of the aggregate of all taxes. The percentage paid to each level of government by this income group was 42.7 per cent federal, 40.0 per cent provincial and 30.4 per cent municipal. In effect, roughly 70 per cent of all municipal taxes is collected from those with incomes of less than \$1000.

(2) Still using Prof. Goffman's estimates we find provincial and 69.6 per cent municipal. contribution was 27.3 per cent federal, 60.0 per cent of all taxes and by levels of government their (\$7000) accounted for 52.5 per cent of the aggregate together, the lower and middle income groups (\$0 to provincial and 32.5 per cent municipal. Taken cent of the federal revenues, 34.3 per cent of the and by level of government they contributed 34.4 per cent accounted for 34.6 per cent of the aggregate of all taxes (3) The \$1000 to \$7000 "middle" income group of municipal governments than have the higher income greater relative importance to the fund raising activities it can be concluded that the lower income group have a of the funds raised by local governments from which 25.8 per cent of the provincial revenues and 31.4 per cent contributed 22.8 per cent of the federal revenues, survey. By level of government this income group approximately 5 million taxpayer units covered by the income tax-payers who constitute 57.5 per cent of the



1 of the total tax paid which means that 70 per cent
2 of the property tax -- which accounts for 93 per cent
3 of all municipal tax revenues -- is paid by those with
4 incomes less than \$7000.... Any significant increase
5 in property taxation will, therefore, be highly
6 concentrated in this group.

7 (g) It is the contention of municipal
8 administrators that the capacity of the "average" tax-
9 payer to pay a higher property tax is extremely marginal.
10 Consequently, most municipalities are reluctant to increase
11 their revenues from this source much beyond those
12 presently prevailing, except only insofar as such
13 revenues are augmented through community growth. The
14 problem is well illustrated by the graph on the following
15 page. While it portrays the situation in the City
16 of Vancouver it has equal applicability in most
17 municipalities across the country.

18 (h) The graph, based on the years 1955 to 1962,
19 compares the per capita increase in taxation with the
20 ratepayer's ability to pay as reflected by the increase
21 in weekly wages and salaries based on the industrial
22 composite index.... The graph indicates that, for this
23 period, total property taxation for general and school
24 purposes has risen at a greater rate than have the
25 earnings of the average taxpayer. If this disparity
26 of increase continues, it is obvious that a point in
27 time will soon be reached when municipalities cannot
28 further increase property taxes beyond the level they
29 have already reached. For many taxpayers in most
30 municipalities this point in time has already been reached.

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of the property tax -- which accounts for 9

of all municipal tax revenue -- is paid by those with

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(b) The graph, based on the years 1955 to 1962,

compares the per capita increase in taxation with the

ratepayer's ability to pay as reflected by the increase

in weekly wages and salaries based on the industrial

composite index. The graph indicates that, for this

period, total property taxation for general and school

purposes has risen at a greater rate than have the

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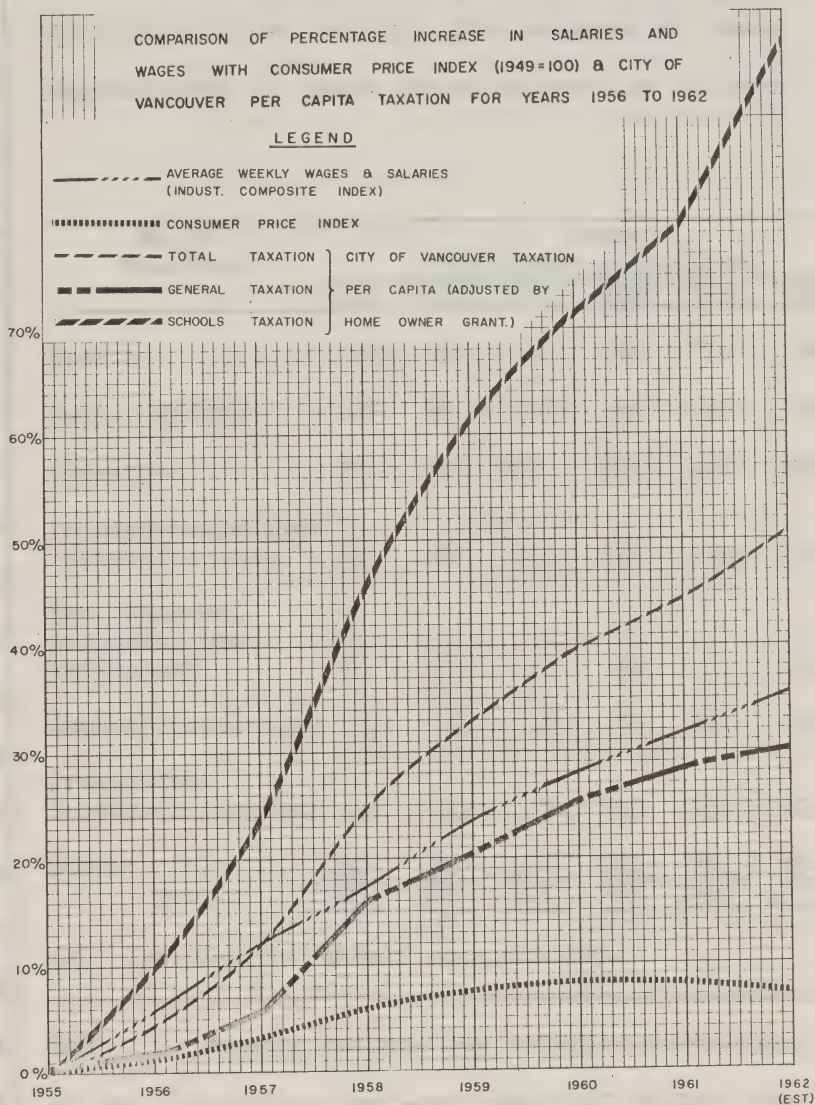
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municipalities this point in time has already been reached



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G. EXPENDITURES OF MUNICIPAL GOVERNMENTS
AND TRENDS

(a) The aggregate net general expenditures of municipal governments, including capital expenditures, increased in actual dollars from \$303 million in 1933 to \$1853 million in 1959. The purposes of these expenditures (by major function) were as follows:

Major Functions	Years (Millions of Dollars)					
	1933	1939	1946	1951	1956	1959
Health	15	16	21	41	70	68
Social Welfare	42	35	39	25	34	38
Education	77	87	118	283	440	658
Transportation and Communications	27	28	67	123	226	346
Debt Charges, Excluding Debt Retirement	60	52	32	36	67	118
General Government (A)	(A)	(A)	(A)	55	101	129
Protection: Persons & Property (A)	(A)	(A)	(A)	102	156	212
Other	82	88	114	122	221	284
Total	<u>308</u>	<u>306</u>	<u>391</u>	<u>787</u>	<u>1315</u>	<u>1853</u>

(A) Included in "other" expenditures.

(b) Bearing in mind the relative purchasing power of the pre-war and post-war municipal dollar, the aggregate volume of municipal expenditures -- valuelwise -- increased about 250 per cent. The expenditure trends -- in actual dollars -- can be summarized as follows:

1. The most striking increase has been in education costs. In 1933, they amounted to \$77 million and, by 1946, had reached \$118



The aggregate net general expenditures of municipal governments, including capital expenditures, increased in actual dollars from \$303 million in 1953 to \$1853 million in 1959. The purposes of these expenditures (by major function) were as follows:

Functions		(Millions of dollars)					
		1959	1958	1957	1956	1955	1954
Health		15	16	21	41	70	58
Social Welfare		43	35	39	55	34	35
Education		77	87	113	233	440	258
Transportation and Communications		27	38	67	123	220	345
Debt Charges, Excluding Debt Refinancing		50	52	32	36	67	118
General Government	(A)	(A)	(A)	(A)	55	101	120
Persons & Property	(A)	(A)	(A)	(A)	102	156	211
Other		82	95	114	132	221	284
Total		303	381	491	747	1216	1673

(A) Included in "other" expenditures.

(b) Bearing in mind the relative purchasing power of the pre-war and post-war municipal dollar, the aggregate volume of municipal expenditures -- valueless -- increased about 250 per cent. The expenditure trends -- in actual dollars -- can be summarized as follows:

1. The most striking increase has been in education costs. In 1953, they amounted to \$17 million and, by 1959, had reached \$755



million. In the subsequent post-war years they have mounted steadily. By 1951, they had risen to \$283 million and, in 1959, to \$658 million; or approximately one-third of the aggregate of municipal expenditures for all purposes.... (In many municipalities school costs now absorb as much as 50 per cent and 60 per cent of the total municipal tax revenue dollar).

2. Expenditures on transportation and communications (mainly streets and highways) were at a low ebb during the depression years and, for the most part, were for annual street maintenance.... A program of new road construction got underway during the post-war years and between 1946 and 1951 the annual expenditures increased from \$118 million to \$283 million. Between 1956 and 1959 the annual increase was from \$226 million to \$346 million.

3. Health costs have risen steadily but moderately during the period. In 1933, they amounted to \$15 million and, in 1959, to \$68 million.

4. Social Welfare costs declined during the period from \$42 million in 1933 to \$38 million in 1959. The decline in municipal social welfare costs is a reflection of the fact that many of the welfare costs for which municipalities were responsible during the pre-war years (unemployment relief, etc.) have now been assumed, in large part, by the



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Health costs have risen steadily but moderately during the period. In 1933, they amounted to \$15 million and, in 1952, to \$68 million.

Social welfare costs have risen from \$45 million in 1933 to \$38 million in 1952. The decline in municipal social welfare costs is a reflection of the fact that many of the welfare costs for which municipalities were responsible during the pre-war years (unemployment relief, etc.) have now been assumed, in large part, by the



federal and provincial governments.

5. Annual Debt charges (excluding debt retirement) declined from \$60 million in 1933 to \$32 million in 1946. This period covered the depression and war years and, during these years, municipal capital borrowing virtually came to a halt. It was not until after the Korean war that municipal governments were in a position to undertake any substantial new capital improvements. Since that time there has been a progressive program of municipal capital works which accounts for the annual increase in debt charges from \$36 million in 1951 to \$118 million in 1959.



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H. FACTORS AFFECTING MUNICIPAL
BORROWING

(a) In 1933, total municipal bonds outstanding reached a pre-war high of about \$1.2 billion (net, a level which was not exceeded until 1951. By the end of 1961, the comparable total was \$4.5 billion, excluding sinking fund investments but including municipal issues guaranteed or bought by the provinces. The following table shows the rise of municipal debt over the period 1933-61, with the aggregate divided between urban and rural areas.

OUTSTANDING MUNICIPAL BONDED DEBT
INCLUDING PROVINCIAL GUARANTEES (1)

	Selected Years					
	(\$ Millions)					
	<u>1933</u>	<u>1939</u>	<u>1946</u>	<u>1951</u>	<u>1956</u>	<u>1961</u>
Schools (Gross) \$	234	\$ 209	\$ 181	\$ 313	\$ 808	\$ 1520
Highway (Gross)	307	256	160	226	386	611
Other Utilities (Gross)	<u>497</u>	<u>521</u>	<u>405</u>	<u>496</u>	<u>756</u>	<u>1319</u>
Gross Items	1038	986	745	1035	1950	3650
Less:						
Sinking Funds	<u>157</u>	<u>196</u>	<u>124</u>	<u>99</u>	<u>91</u>	<u>120</u>
Above Items (Net)	881	790	622	936	1859	3530
Public Utilities (Net)	297	238	165	313	619	897
Guaranteed (Net)	64	55	46	52	135	161
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Direct and Guaranteed Bonded Debt (Net)	1242	1082	833	1301	2613	4570
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
(2) (3)						
Of Which Urban	1171	1028	796	1169	2339	4074
(2) Rural	71	54	37	132	274	496

(a)

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OUTSTANDING MUNICIPAL BONDED DEBT
INCLUDING PROVINCIAL GUARANTEES
(1)

Selected Years				
(\$ Millions)				
1951	1941	1931	1921	1911
Schools (Gross) \$ 234	\$ 209	\$ 181	\$ 213	\$ 303
Highway (Gross)	207	256	160	226
				366
Utilities (Gross)	407	251	405	404
Gross Items	1093	966	1445	1950
Less:				
Sinking Funds	171	196	151	91
Above Items (Net)	921	770	1294	1859
Public Utilities (Net)	237	233	155	313
Guaranteed (Net)	64	55	46	55
Direct and Guaranteed Bonded Debt (Net)	1245	1032	1195	2013
Of which Urban	1171	1033	1166	2339
Rural	71	24	29	274



- NOTES:
1. Includes provincially guaranteed municipal and school bonds and loans to municipalities from provincial funds provided for that purpose.
 2. The division between urban and rural was changed in 1956 and the figures for that and following years are not comparable to earlier years.
 3. Includes all cities, towns, villages and all other municipalities in metropolitan and major urban areas as defined in Census of Canada 1956.

SOURCE: Bank of Canada Statistical Summary
Supplements 1954, 1960 and 1961.

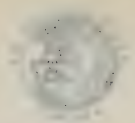
(b) Virtually all municipal governments have need to borrow funds either (a) to tide them over a period -- generally of short duration -- when their own resources are at low ebb or (b) for the purpose of financing local improvements or other capital works. For the latter purposes, there are two major categories of municipal borrowers:

1. The municipalities -- mainly the small ones -- which rarely go to the market....

This type of municipality is likely to experience difficulty in marketing its debentures. The fact that it seldom goes to the market ought to be in its favour. But since it is unknown and because it is not a regular borrower it may have to pay a higher interest rate than a comparable but better known municipality having an established rating.

2. The municipalities -- mainly the larger ones -- which go the market frequently....

This type of municipality has a heavy



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2. The municipalities -- mainly the larger
ones -- which go to the market frequently....
This type of municipality has a heavy



investment in construction and engineering staff to maintain a continuing program of local improvements and other needed works projects. It must therefore be assured of a continued flow of credit, both short and long-term. To this type of community, which is usually a growing one, an adequate supply of credit is almost as important as its ability to tax.

(a) Insofar as short-term municipal borrowing is concerned it is generally for one of two purposes:

1. To meet the costs of current municipal expenditures during a period prior to the replenishment of municipal funds through the payment of local taxes or of other assured municipal revenues (e.g. government grants and subsidies).
2. To finance the interim costs of local improvements and other capital works projects pending arrangements being made for their long-term financing.

(d) Insofar as long-term municipal borrowing is concerned, it is resorted to in order to finance those major capital expenditures which cannot be met in their entirety from the foreseeable short-term revenues of municipal governments and which, therefore, require to be financed by borrowing long-term funds repayable either (a) by serial debenture repayments over an extended period of years or (b) in their entirety at a fixed future date.



(e) There is no set of rigid rules whereby a municipal government determines its borrowing policy but, in general, it is guided by the following considerations:

1. The cost of short-life capital assets (e.g. automotive, accounting and office equipment, parks and playgrounds accessories, etc.) are generally absorbed in the current budget and paid for in their entirety from current revenues. Generally they are not financed by capital borrowing.

2. The limits prescribed by some provinces for municipal borrowing and the rule-of-thumb standards used by the market for judging the credit worthiness and debt-carrying capacity of a municipality..... for example, 20 per cent of the assessed value of taxable property, or the existing per capita debt. There is a growing feeling among investors as well as municipal finance officers that there are other factors which are of equal or even greater significance in evaluating the credit risk or strength of a municipality. (See paragraphs (f) to (n).

3. Revenue-producing capital works projects which provide a desirable or needed service may receive prior consideration for early completion (and, therefore, for capital funds).

4. As a general practice, municipal governments avoid long-term bank borrowing....



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1 Short-term bank borrowings (as previously
2 indicated) are generally (a) in anticipation
3 of tax or other payments due to the municipality
4 or (b) in anticipation of completing arrange-
5 ments to float a long-term debenture loan.
6 5. The timing of bond issues is an important
7 factor in municipal capital borrowing. The
8 main endeavour is to reach the market at a
9 time when interest rates and other market
10 considerations are most favourable. Pressures
11 arising from high interest rates and tight
12 money may temporarily defer borrowing in
13 whole or in part.

14
15 Municipal Debt Limitation

16 (f) The matter of municipal debt limitations
17 has been under expert study in the United States by
18 the Federal-appointed Advisory Commission for inter-
19 governmental Relations. In one of its recent reports
20 ("State Constitutional and Statutory Restrictions on
21 Local Government Debt") the Commission expressed concern
22 with respect to the inelasticity and restrictive nature
23 of most State laws and regulations pertaining to municipal
24 borrowing and the observation was made that, unless
25 such regulations are drastically revised, the functional
26 and political independence of local governments is in
27 danger of being stifled and the self-generated growth
28 of the nation's communities seriously thwarted.
29 (g) In its report, the Commission affirms that
30 the individual States have a legitimate and proper



Short-term bank borrowings (as previously indicated) are generally (a) in anticipation of tax or other payments due to the municipality or (b) in anticipation of completing arrangements to float a long-term debt issue. 5. The timing of bond issues is an important factor in municipal capital borrowing. The main endeavour is to reach the market at a time when interest rates and other market considerations are most favourable. Pressures arising from high interest rates and tight money may temporarily deter borrowing in whole or in part.

Municipal Debt Limitation

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1 concern with the borrowing practices and powers of
2 local governments subject to their jurisdiction. It
3 questions, however, the means employed to implement
4 their supervisory power and it makes the observation
5 that the main body of State laws with respect to
6 municipal debt limitation is "a fabric of patches"
7 conceived in expediency and with little regard for the
8 vast changing needs of most communities.

9 (h) The Commission found that "no single formula
10 now in effect appears to provide a reasonable and equit-
11 able measure of 'safe' debt carrying capacity of
12 individual local governments".... It deplores the
13 widespread adherence to a State-imposed limit on local
14 indebtedness, predicated on a percentage of the local
15 property tax base, as an anachronism that has persisted
16 too long and is today rife with more weaknesses than
17 ever before.... Similarly, it finds little merit in
18 a formula which is based on the concept of a dollar
19 amount per capita -- if only because this, too, is
20 sadly out of date and fails to take into account the almost
21 insurmountable difficulties entailed in matching population
22 figures with money needs, particularly at times when
23 money is actually needed.

24 (i) Moreover, the Commission found that using
25 such formulae as measuring a community's economic
26 capacity in terms of the personal income of its residents,
27 or even setting a ratio of borrowing to a government's
28 total current revenue, as too restrictive simply because
29 neither takes into account that the capacity to repay
30 may be greatly enlarged or greatly diminished in any



concern with the borrowing practices and powers of local governments subject to their jurisdiction. If questions, however, the means employed to implement their supervisory power and it makes the observation that the main body of State laws with respect to municipal debt limitation is "a fabric of patches" conceived in expediency and with little regard for the vast changing needs of most communities.

(b) The Commission found that "no single formula now in effect appears to provide a reasonable and equitable measure of 'safe' debt carrying capacity of communities." It is suggested adherence to a State-imposed limit on local indebtedness, predicated on a percentage of the local property tax base, as an anachronism that has persisted too long and is today rife with more weaknesses than ever before.... Similarly, it finds little merit in a formula which is based on the concept of a dollar amount per capita -- if only because this, too, is sadly out of date and fails to take into account the almost insurmountable difficulties entailed in matching population figures with money needs, particularly at times when money is actually needed.

(c) Moreover, the Commission found that using such formulas as measuring a community's economic capacity in terms of the personal income of its residents or even setting a rate of borrowing to a government's total current revenue, as too restrictive simply because neither takes into account that the capacity to repay may be greatly enlarged or greatly diminished in any



1 community almost over night.

2 (j) Instead, the Commission urges that the States
3 seek a new formula, perhaps a modification of some of
4 the better elements of those now in use, but, certainly,
5 a new one which will realistically meet the requirements
6 both of the present and the foreseeable future.

7 (k) As a step in that direction, the Commission
8 suggests that the States rid themselves of statutory
9 restrictions on the borrowing power of their subordinate
10 communities.... "These restrictions handicap self-reliance
11 of local communities and governments", in states, and impel
12 them towards increased dependence on State and Federal
13 resources.... "In many States, present provisions have
14 contributed to complexity and deviousness in local debt
15 operations", and it adds, "action to remedy this sorry
16 situation is both urgent and necessary."

17 (l) The Commission was of the view that local
18 governments should be granted maximum powers to manage
19 their own debt problems with the role of the State being
20 "to facilitate -- rather than hamper -- the intelligent
21 choice among suitable alternative forms of borrowing
22 by the local governments concerned."

23 (m) In effect, after carefully studying the whole
24 problem of municipal debt in the United States, the
25 Commission has said, "let those who have been chosen
26 to govern, govern -- and that function of governing
27 includes, among other things, the exercise of good
28 judgment in borrowing."

29 (n) In the view of the Federation this report
30 of the Advisory Commission for Intergovernmental Relations



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As a step in that direction, the Commission suggests that the States rid themselves of statutory restrictions on the borrowing power of their subdivisions of local communities and governments, in states, and improve them towards increased dependence on State and Federal resources.... "In many States, present provisions have contributed to complexity and bewilderment in local debt operations", and it adds, "action to remedy this sorry situation is both urgent and necessary."

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(l)

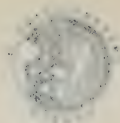
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(m)

In the view of the Federation this report of the Advisory Commission for Intergovernmental Relations



(U.S.) has equal applicability to the Canadian situation insofar as municipal debt limitations are concerned. Because of this the report should commend itself to the Royal Commission as well as to provincial regulatory authorities, bond buyers and dealers.



(U.S.) has been applied to the Government of Canada
insofar as municipal debt limitations are concerned,
the Royal Commission as well as to provincial regulatory
authorities, and the Government of Canada.

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1 I. SOURCES OF BORROWED FUNDS

2 Borrowing in the Short-term Market

3 (a) Municipal governments, in the aggregate,
4 are prime customers of the chartered banks. Their current
5 annual revenues, now running in excess of \$1.5 billion,
6 flow through banking channels and most of their short-
7 term credit needs are arranged, in one form or another,
8 through their local bank. Municipalities are mindful
9 of the importance of maintaining good banking
10 relationships and most of them have established for
11 themselves a high credit rating. They are large depositors
12 and large bank borrowers.

13 (b) As a depositor, it is the general routine
14 for a municipality to deposit its day-by-day tax and
15 other revenues in the bank (or banks) in which it has
16 an account. These deposits are usually placed in the
17 municipality's current account pending the transfer
18 of any unneeded surplus into short-term interest-earning
19 investments. The remaining credit balance (needed to
20 meet the impending expenditure requirements of the munici-
21 pality) is not subject to bank interest earnings. Credit
22 balances are frequently of a substantial nature. (Some
23 large municipalities apply their credit balances against
24 outstanding bank loans for the purpose of calculating
25 interest payable to the bank.)

26 (c) Most chartered banks buy short-term issues
27 of municipal debentures, particularly from municipalities
28 who are depositors of the bank.

29 (d) As short-term borrowers, municipalities have
30 three basic needs. They are:



I. SOURCES OF BORROWED FUNDS

Borrowing in the Short-Term Market

(a) Municipal governments, in the aggregate,

are prime customers of the organized banks. Their current annual revenues, now running in excess of \$1.5 billion, flow through banking channels and most of their short-term credit needs are serviced, in one form or another, through their local bank. Municipalities are mindful of the importance of maintaining good banking relationships and most of them have established for themselves a high credit rating. They are large depositors and large bank borrowers.

(b) As a depositor, it is the general routine

for a municipality to deposit its day-by-day tax and other revenues in the bank (or banks) in which it has an account. These deposits are usually placed in the municipality's current account pending the transfer of any unneeded surplus into short-term interest-earning investments. The remaining credit balance (needed to

meet the impending expenditure requirements of the municipality) is not subject to bank interest earnings. Credit balances are frequently of a substantial nature. (Some large municipalities apply their credit balances against outstanding bank loans for the purpose of offsetting interest payable to the bank.)

(c) Most organized banks buy short-term issues

of municipal securities, particularly from municipalities who are depositors of the bank.

(d) As short-term borrowers, municipalities have

several basic needs. They are:



(1) Short-term loans in anticipation of tax payments or other assured pending payments (government grants, etc.). Such loans are generally substantial and may be for a period of several months.

(2) For recurrent but relatively short periods (generally from a few days to a week or so) when current expenditures are temporarily in excess of their current bank balance.

(3) For expenditures on capital works projects pending an appropriate timing for the issue and sale of long-term debentures on the bond market.

(e) Interest on such loans is usually at the prime bank rate which for some time has been $5\frac{1}{2}$ per cent but which was raised recently to 6 per cent.

(f) Municipal officials feel that these rates are excessive for tax anticipation and other such well-secured short-term loans. They claim that the established high credit rating of most municipalities warrants a substantially lower rate. The contention of the District of Burnaby on this subject in its Submission to the Royal Commission would be endorsed by municipalities throughout Canada.

(g) The continuing high prime rate on short-term bank loans has been a factor in diverting municipalities to the money market for short-term financing and substantial borrowing from this source occurred in 1962. (a)

(a) In the spring of 1962 there were a number of issues of municipal paper sold privately at a discount, bearing coupons of 2 per cent, maturing in two to four months, and costing the municipalities 2.83 per cent to 3.65 per cent. All were issued by municipalities having a population in



properly substantiated and may be for a period
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in cases of their contract being broken

(3) For expenditures on capital works

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of the District of Ramsey on this subject in its

submission to the Royal Commission would be echoed

by municipalities throughout Canada.

(g) The continuing high prime rate on short-term

bank loans has been a factor in diverting municipalities

to the money market for short-term financing and

consequently increasing the cost of borrowing in 1954.

(a) In the spring of 1954 there were a number of issues

of municipal paper sold privately at a discount, bearing

coupons of 5 per cent, maturing in two to four months, at



1 The experience of the City of Winnipeg is indicative
2 of the trend in other large municipalities. (b) Winnipeg
3 commenced issuing its own paper for short-term borrowings
4 early in 1962. Notes were issued for periods ranging
5 from fourteen up to sixty-one days. As of mid-August,
6 the total of such borrowings in 1962 amounted to \$6.5
7 million for an average term of about thirty-three days.
8 The average interest cost to the City of these borrowings
9 was about 2-3/8 per cent below the bank rate for borrowing
10 by way of overdraft.

11 (h) It is likely that the larger municipalities
12 will resort increasingly to the money market for their
13 short-term borrowing requirements. For other
14 municipalities, a government-sponsored municipal loan
15 corporation (or some equivalent body) could well satisfy
16 municipal needs for seasonal loans at low rates of
17 interest. The corporation could issue its own paper,
18 or finance out of pooled municipal deposits or other
19 funds obtained from the sale of longer term issues.

20 (i) The recent decision of Canadian banks to
21 discontinue short-term lending by way of overdraft
22 and to revert to providing credit exclusively by promissory
23 note is viewed with some concern. The effect of this
24 decision will be to further increase the cost of bank
25 borrowings to municipalities. The municipalities feel
26 strongly that the decision of the banks has been made
27 without fully recognizing the essential differences
28 between private, corporate and municipal borrowings.

29 (b) Other municipalities issuing their own paper in
30 1962 included: Metropolitan Corporation of Toronto, Hamilton
Ottawa, Brantford, Vancouver, District of Burnaby, Greater
Vancouver Water District, Greater Vancouver Sewerage
and Drainage District.



The experience of the City of Winnipeg is indicative of the trend in other large municipalities. (b) Winnipeg commenced issuing its own paper for short-term borrowings early in 1962. Notes were issued for periods ranging from fourteen up to sixty-one days. As of mid-August, the total of such borrowings in 1962 amounted to \$6.5 million for an average term of about thirty-three days. The average interest cost to the City of these borrowings was about 2-3/8 per cent below the bank rate for borrowing by way of overdraft.

(b) It is likely that the larger municipalities will resort increasingly to the money market for their short-term borrowing requirements. For other municipalities, a Government-sponsored municipal loan corporation (or some equivalent body) could well satisfy municipal needs for seasonal loans at low rates of interest. The corporation could issue its own paper, or finance out of pooled municipal deposits or other funds obtained from the sale of longer term issues. (1) The recent decision of Canadian banks to discontinue short-term lending by way of overdraft

and to revert to providing credit exclusively by promissory note is viewed with some concern. The effect of this decision will be to further increase the cost of bank borrowings to municipalities. The municipalities feel strongly that the decision of the banks has been made

between private, corporate and municipal borrowings. (c) Other municipalities issuing their own paper in the form of promissory notes, drafts, etc., are: Ottawa, Brandon, Vancouver, District of Columbia, Seattle, etc.



1 The policy provides for no distinction being made
2 either on the basis of the impact of costs to the banks
3 for different types of borrowers or the evaluation
4 of the credit risk involved.

5 (j) The municipalities are long-established borrowers
6 from the banks and the banks cannot claim that they do not
7 know of their probable credit requirements; nor are they
8 unaware of the consistently high record of municipal
9 governments in fully discharging their bank credit
10 obligations. Generally, municipalities supply their bank
11 with a forecast of their credit requirements, usually
12 before or at the beginning of each quarter of the year,
13 and it is common practice at the end of each month
14 for most municipalities to provide their bank (or banks)
15 with a statement showing the actual banking position
16 of the municipality in relation to the credit forecast.
17 The banks have no better "credit" customers than the
18 municipal governments.

19 Long-term Borrowing

20 (k) The most common instrument of financing
21 is the serial bond, although the largest cities, and
22 a number of smaller Quebec municipalities, sell term
23 issues. The chief characteristic of serials is that
24 the capital is repaid annually in instalments; the
25 average period for which the initial debt is outstanding
26 in a twenty-year serial issue is not much over ten years.
27 Many economists argue that the municipalities are subjecting
28 themselves to unnecessary strain in trying to finance
29 projects with a life of twenty-five to fifty years
30 on such a relatively short-term basis. The period over



The policy provides for no distinction being made either on the basis of the impact of costs to the banks for different types of borrowers or the evaluation of the credit risk involved.

(j) The municipalities are long-established borrowers from the banks and the banks cannot claim that they do not know of their probable credit requirements; nor are they unaware of the consistently high record of municipal obligations. Generally, municipalities supply their bank with a forecast of their credit requirements, usually before or at the beginning of each quarter of the year, and it is common practice at the end of each month for most municipalities to provide their bank (or banks) with a statement showing the actual banking position of the municipality in relation to the credit forecast. The banks have no better "credit" customers than the municipal governments.

(k) The most common instrument of financing is the serial bond, although the largest cities, and a number of smaller Quebec municipalities, sell term issues. The chief characteristic of serials is that the capital is repaid annually in instalments; the average period for which the initial debt is outstanding in a twenty-year serial issue is not much over ten years. Many economists argue that the municipalities are subject themselves to unnecessary strain in trying to finance projects with a life of twenty-five to fifty years on such a relatively short-term basis. The period over



1 which serial bonds are repayable has increased somewhat
2 lately and the average term has also been increased
3 by the device of making the final instalment much
4 larger than the others, but the serial bond remains
5 a relatively short-term borrowing instrument.

6 (1) Serial bonds have been criticized by some
7 investment dealers and institutional buyers. The chief
8 criticism is the lack of marketability and liquidity
9 of these bonds, both in new underwritings and in the
10 secondary markets, which tend to hinder their sale to
11 those institutions which are interested in bonds that
12 can be readily sold if the market conditions change;
13 and, since the number of institutional investment managers
14 who take a trading view of bonds may be growing, the
15 market for serial municipals may tend to contract.

16 It is held, too, that the somewhat untidy form of serial
17 issues makes them an unattractive investment. Not only
18 are more actual certificates involved, but the aggregate
19 investment is divided into small pieces and the annual
20 repayment creates reinvestment problems.

21 (m) The view of municipalities about serial bonds
22 has been influenced by the unfortunate experiences
23 with sinking fund bonds and management during the
24 'thirties'. There is legitimate concern about the
25 ability of many municipalities to manage their sinking
26 funds properly and some provinces set such stringent
27 regulations about the handling of sinking fund money
28 that municipalities find it difficult to meet the
29 conditions. For small municipalities the sinking fund
30 approach to financing is almost impossible because of



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(1) Serial bonds have been criticized by some investment dealers and institutional buyers. The chief criticism is the lack of marketability and liquidity of these bonds, both in new issues and in the secondary market, which tend to render them safe to those institutions which are interested in bonds that can be readily sold at the market conditions change; and, since the number of institutional investment managers who take a trading view of bonds may be growing, the market for serial municipalities may tend to contract. It is held, too, that the somewhat untidy form of serial issues makes them an unattractive investment. Not only are more actual difficulties involved, but the aggregate investment is divided into small pieces and the annual repayment creates reinvestment problems.

(2) The view of municipalities about serial bonds has been influenced by the unfortunate experiences with sinking fund bonds and management during the 'thirties'. There is legitimate concern about the ability of many municipalities to manage their sinking funds properly and some provinces set such stringent regulations about the handling of sinking fund money that municipalities find it difficult to meet the conditions. For small municipalities the sinking fund



1 lack of the necessary financial management skills.

2 Finally, serial bonds are the almost universal form of
3 state and local debt instrument in the United States,
4 and many Canadian municipal serial bonds find a market
5 in that country.

6 (n) The obstacle to sinking fund issues might
7 be overcome, for small or other municipalities, by
8 the establishment of a centrally-managed sinking fund
9 into which municipalities would pay their annual
10 instalments.



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J. FACTORS WHICH DETERMINE THE AMOUNTS,
MATURITY AND TIMING OF SECURITY ISSUES

(1) The influence on municipal financing of federal
and other government activity.

(a) In their approach to the bond market the municipalities (and the provinces) are in a different position from that of the Federal Government. Although the rates set by the market are essentially derived from the tightness or ease of credit conditions in the economy, the federal authorities can affect these conditions materially and can, to a considerable extent, manage the climate in which their borrowing is done. In contrast, other levels of government have little to say about the conditions under which they borrow apart from deciding to accelerate or postpone their borrowing for a brief period, or to borrow in the United States if that market is open to them.

(b) The inability of the municipalities to do anything about the market, in contrast to the dominant position of the Federal Government in it, is a disability of some consequence. During the period of the 1958 Conversion Loan and its aftermath municipalities took their capital where they could find it and paid whatever price they had to to get it. They increased their borrowing in the U.S. market substantially and, while this provided some escape from the high interest rates and difficult market conditions prevailing in Canada, the escape was bought at the risk of future exchange losses on interest and capital requirements.

(c) Borrowing by Canadian municipalities in the U.S.A. decreased greatly in 1960 and 1961.



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(c) Borrowing by Canadian municipalities



1 This was due in part to their growing awareness of the
2 dangers inherent in debt payable in a foreign currency
3 and, in part, to the withholding tax on U.S. pay issues
4 imposed in December, 1960. A further factor was the
5 improved market conditions in Canada which made borrow-
6 ing easier. The June 1961 budget contributed to this and,
7 in particular, the decision of the federal authorities
8 to concentrate their borrowing in the short end and
9 to use the purchase fund to support the long-term Canada
10 market. However, the crisis in May and June 1962, and
11 the federal reversion to long-term borrowing in July
12 1962 certainly affected adversely the attractiveness
13 of the Canadian market for other borrowers.

14 (d) The influence of the Federal Government
15 on the bond market, stems in part from its close relation-
16 ship with the Bank of Canada. In its open market
17 operations the Bank deals only in Government of
18 Canada bonds.... The Bank of Canada Act, however,
19 allows the Bank to buy and sell provincial securities
20 and to make advances to chartered banks against the
21 pledge of municipal bonds.

22 (e) The Federal Government has a larger
23 arsenal of borrowing instruments to choose from than
24 most borrowers, and municipalities have even fewer
25 alternatives than the provinces to which they are
26 subordinate. Their borrowing is mainly in the form of
27 serial bonds, although some of the larger municipalities
28 sell sinking fund term bonds maturing in about twenty
29 to twenty-five years. As previously mentioned, there is
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1 of the short-term market by the sale of short-term
2 notes. This is a form of instrument which only the
3 larger municipalities are likely to be able to use
4 effectively. Similarly, the U.S. market tends to be
5 limited to the better known names and centres of larger
6 population. However, the imposition of a withholding
7 tax of 15 per cent in the December 1960 budget on
8 foreign pay Canadian securities has made that market
9 more expensive for Canadian borrowers.

10 (f) Any large scale provincial operation
11 in the bond market has a definite effect upon the
12 borrowing of municipal governments. The coupon rate
13 decided upon by the provincial issues, the amount of
14 the borrowing, whether it is a long or short-term
15 security, and the length of the time which the public
16 takes to absorb the issue, are factors which a
17 municipality must take into account when considering
18 the timing, terms and amount for its own debenture issue.

19 (g) It is more than coincidence that a flood
20 of municipal issues tend to appear in the wake of a
21 federal or provincial issue. But this is not the only
22 reason why municipal issues seem to flock to the market
23 together. As one municipal finance officer puts it:
24 Timing is also largely a selling expedient and is influenced
25 by such factors as (a) year-end inventory taking; (b) seasonal
26 doldrums; (c) summer holidays; and other conditions.

27 (2) Views as to the appropriate maturity structure
28 of municipal debt and the merits of lengthening the
29 average term of debt in view of the durability of certain
30 municipal capital assets.



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of municipal debt and the merits of lengthening the
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(h) Opinion is divided among municipal administrators regarding the wisdom of lengthening the term of municipal borrowing for long-life municipal projects beyond the general practice of 20 years. Some feel that it would be difficult to market 30 to 40 year maturities.

(i) While the difference in annual cost between a 20 and 40 year amortization period is relatively small (about 2 per cent), nonetheless, the total cost of a 40 year amortization is about $2\frac{1}{2}$ times the amount borrowed compared to $1\frac{3}{4}$ times for a 20 year amortization.

(j) Some hold the extreme view that municipalities should strive to shorten their debt maturities to a maximum of 10 or even 5 years. Among this group are those who hold that, in principle, every generation should live with and finance its own problems and needs. They argue that in this changing world there will be plenty of things for the next generation to take care of and they should not be prevented from doing so by a handicap of an old and undischarged debt.

(k) By contrast, there is a strong and growing feeling that costly municipal undertakings destined to serve the needs of several generations to come ought properly to be so financed that the burden of their costs is spread over a reasonable period beyond the present practice of from 10 to 20 years.

(l) In some municipalities where issues have been permitted to run from 15 to 40 years, the 40 year issues have been arranged on a 20 year term with provision for refunding at that maturity for a further 20 years.

(b) Opinion is divided among municipal

administrators regarding the wisdom of lengthening

the term of municipal borrowing for long-life municipal

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Some feel that it would be difficult to market 30 to

40 year maturities.

(1) While the difference in annual cost

between a 20 and 40 year amortization period is relatively

small (about 1 per cent), nonetheless, the total cost

of a 40 year amortization is about 2 1/2 times the amount

borrowed compared to 1 1/2 times for a 20 year amortization.

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(c) By contrast, there is a strong and growing

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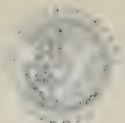
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1 This practice of permissible interim refunding may be
2 justifiable when average interest rates prevail;
3 but when borrowing requirements in the capital market
4 reach the stage where an issue of debentures is needed
5 once a year -- or oftener -- the refunding provision
6 may ultimately result in some congestion if refunding
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K. METHODS OF ISSUE AND RELATIONSHIP TO
THE INVESTMENT DEALER

(a) Municipalities sell their bonds by competitive tender or at a negotiated price through a fiscal agent, depending upon circumstances. The largest municipalities believe that they are almost forced by the size of their issues to use the agency approach since wide distribution of the securities requires a very large group of dealers. Other municipalities have stayed with competitive bidding, but the over-all trend has been in the direction of more fiscal agencies. A third approach has evolved which is a combination of the other two. A municipality can let it be known that it is considering a private placement of modest size and it invites subject bids for the whole issue from a few dealers with whom it has been negotiating. The dealers are given enough time to search out a few buyers who might be prepared to take all or most of the issue at a certain price, providing that the dealer is awarded the issue by the municipality. This system might be called "competitive private placement"; it is advantageous for both issuer and buyer because it is flexible and reduces underwriting costs.

(b) There are strong arguments in favour of competition bidding. The bonds sell at the best price the market will pay. The danger is that if the bidders are too competitive the price may be pushed up to an unreasonable level, resulting in a high priced issue that is difficult to sell and may be damaging to the future credit of the borrower. Moreover, no underwriter is permanently interested in the continuing saleability



THE MUNICIPAL BOND MARKET

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1 of the borrower's issues and aftermarkets may suffer
2 as a result. A fiscal agent can provide continuous
3 advice on timing and methods of issuing bonds and,
4 in general, be a consultant on financial matters. The
5 fiscal agent may not pay quite as high a price as the
6 issuer could obtain by calling for tenders, but he is
7 likely to market the bonds in a more orderly fashion
8 and will usually try to maintain active markets in the
9 issuer's bonds. This helps to ensure that future issues
10 can be sold at reasonable prices and rates. On the
11 other hand, bad judgment on the part of the fiscal agent
12 can be as damaging to the issuer's credit as an over-
13 priced issue following a tender.

14 (c) The general practice in Canada is to pre-
15 determine the coupon rate before marketing the issue.
16 Tender is only on the price. The general practice
17 in the U.S.A. is to leave the coupon rate open and
18 let the bidders tender on the basis of the coupon rate
19 and the price. Municipal bonds in the U.S.A. must
20 be sold by competitive tender.

24 L. THE MARKET FOR MUNICIPAL BONDS

25 (a) The market for Canadian municipal bonds is
26 largely institutional, although in some areas there is
27 a good retail demand for local issuers. There are three
28 principal categories of institutional buyers, not
29 necessarily in the following order of importance:

30 (1) The chartered banks.



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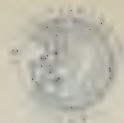


(2) Other Canadian institutions and corporations, including life insurance companies, trust and loan companies, pension funds, mutual funds, credit unions.

(3) Institutions in the United States and overseas.

(b) At the end of 1960 it was estimated by the Bank of Canada that about 75 per cent of outstanding municipal bonds were held by institutional and government accounts, a third of which were held by non-residents (28 per cent), almost all of whom were believed to be institutional holders. Banks, trust companies and credit unions (caisses populaires in Quebec) are the important institutional buyers of the shorter maturities and insurance and pension funds, both Canadian and American, of the longs. Between 1956 and 1960, approximately 27 per cent of the new issues of municipal bonds were payable in U.S. dollars or other foreign currencies, although before 1955 the proportion was much smaller. Since 1960, there has been a sharp decline in U.S. borrowing for a number of reasons which included official statements as to the dangers of heavy foreign commitment, the re-imposition of withholding taxes in the 1960 baby budget, relatively easier money conditions in 1961 and early 1962 and, until the June 1962 austerity crisis, a narrowing of the gap between Canadian and U.S. interest rates.

(c) In addition, any list of provincial and municipal bond buyers must include the sinking fund and



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corporations, including life insurance companies, trust and loan companies, pension funds, mutual funds, credit unions.

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(b) At the end of 1980 it was estimated by the

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municipal bonds were held by institutional and government

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per cent of the new issues of municipal bonds were

payable in U.S. dollars or other foreign currencies,

although before 1975 the proportion was much smaller.

Since 1980, there has been a sharp decline in U.S.

borrowing for a number of reasons which included

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commitment, the re-imposition of withholding taxes in

the 1980s and, relatively easier money conditions

in 1981 and early 1982 and, until the June 1984

interest rate, a narrowing of the gap between

Canadian and U.S. interest rates.

In addition, the rate of return on

investments in Canada has been falling since 1980



1 similar purchase funds of governments which are
2 continually buying in or redeeming outstanding issues.
3 These funds in their operations are not precisely
4 comparable to ordinary buyers. Their purchases, however,
5 have important market effects.

6 (d) Another group of buyers, in a somewhat
7 similar category, are the investment dealers themselves
8 who collectively at any one time will be increasing
9 or decreasing their inventory of bonds. In respect
10 of municipal bonds, however, their inventory accumulation
11 has been largely involuntary.

12 (e) Most municipal finance administrators --
13 at any rate of the larger cities -- try to maintain
14 a close relationship with institutional bond buyers.
15 They recognize and appreciate that, in the aggregate,
16 they constitute the largest group of investors in
17 municipal bonds and that it is important that they
18 be kept well informed with respect to the municipality's
19 general financial affairs and with other community
20 factors which affect the credit rating of a municipality
21 and which, to a considerable extent, determines the amount
22 of any individual municipality's bonds which institutional
23 buyers will hold.

24 The Investment Practices and Holdings of

25 Institutional Bond Buyers

26 Chartered Banks

27 (f) Banks have been important if intermittent
28 buyers of municipal issues, usually taking bonds in the
29 one to five year or one to ten year range. These
30 purchases are frequently made because the bank is a member



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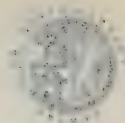


1 of the underwriting group involved in the new issues,
2 or because it is the municipality's principal banker.
3 However, the banks' total holdings of municipal bonds
4 rose very little between the end of 1955 and 1961, from
5 \$218 million to \$231 million. A moderate increase
6 occurred in 1962, to \$258 million at the end of June.

7 Life Insurance Companies

8 (g) Of other large institutional buyers of bonds
9 in Canada, the life insurance companies rank first in
10 importance. There have been profound post-war changes
11 in the structure of life insurance company portfolios.
12 Total Canadian bond holdings of the twelve large
13 companies aggregated \$2004 million in 1946 and, fifteen
14 years later, had increased by less than 50 per cent.
15 Over the same period the value of Government of Canada
16 bonds held by these twelve companies fell by two-thirds,
17 but provincial and municipal bond holdings more than
18 tripled, and corporates rose steeply from \$240 million to
19 \$1534 million. Between the end of 1959 and 1960,
20 municipal holdings increased from \$328 million to
21 \$547 million.

22 (h) The outstanding change in the life insurance
23 companies' portfolios has been the rise in their mortgage
24 holdings. A number of reasons are put forward to explain
25 this, of which the most obvious one is the higher yields
26 prevailing on mortgages throughout the post-war period.
27 Another is that as mortgage portfolios increased the
28 relative costs of administering them have been reduced
29 steadily, from about 1.00 per cent per annum in 1951
30 to .42 per cent in 1960. Another reason appears to be



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1 connected with valuation procedures for the Department
2 of Insurance; foreign companies operating in Canada
3 are required to value their bond holdings at cost
4 or market, whichever is lower, and the fluctuations
5 in bond prices which have occurred have been severe
6 enough at times to threaten the actuarial solvency of
7 companies heavily invested in bonds. Mortgages are
8 valued at cost and hence show no fluctuation; this
9 adds to their appeal for the foreign companies.

10 (i) Although net annual purchases of bonds by the
11 life companies have been only of the order of slightly
12 more than \$100 million a year in recent years -- perhaps
13 only 7 or 8 per cent of the net increase in Canadian
14 bonded debt -- the shifts in the portfolios and the
15 large purchases of corporate issues continue to maintain
16 the life companies' role as active and important
17 participants in the market. Most of the companies have
18 large investment departments, staffed by analysts and
19 experts who appraise new issues from the point of view of
20 quality, price and suitability for the company's portfolio.
21 So important is the judgment of these experts in the sale
22 of new issues that few issues are brought to market by
23 dealers without prior consultation with the life
24 companies and without an indication from at least some
25 of them of an interest in it. If enough enthusiasm
26 for the issue is exhibited in advance by the institutions,
27 the underwriters may prefer to place the issue privately,
28 particularly if it is small.

29 The Trust and Loan Companies

30 (j) The trust companies form another large



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in bond prices which have occurred have been severe
enough at times to threaten the actuarial solvency of
companies heavily invested in bonds. Mortgages are
valued at cost and hence show no fluctuation; this
adds to their appeal for the foreign companies.

(1) Although new annual purchases of bonds by the
life companies have been only of the order of slightly
more than \$100 million a year in recent years -- perhaps
only 7 or 8 per cent of the net increase in Canadian
bonded debt -- the shifts in the portfolios and the
large purchases of corporate issues continue to maintain
the life companies' role as active and important
participants in the market. Most of the companies have
large investment departments, staffed by analysts and
experts who appraise new issues from the point of view of
quality, price and suitability for the company's portfolio.
So important is the judgment of these experts in the sale
of new issues that few issues are brought to market by
dealers without prior consultation with the life
companies and without an indication from at least some
of them of an interest in it. It is enough enthusiasm
for the issue is exhibited in advance by the institutions,
the underwriters may prefer to place the issue privately,
particularly if it is small.

The Trust and Loan Companies



1 institutional market for bonds. Their assets increased
2 from \$414 million to \$1,210 million in the last decade
3 and these can be taken as the trust companies' own
4 funds, and their "guaranteed funds" which originate
5 from savings deposits, and from the sale of savings,
6 trust or guaranteed investment certificates maturing
7 in one to five years. Not included are the very much
8 larger totals of funds administered by trust companies
9 -- estates, trusts, pension funds and safe custody
10 accounts.

11 (k) The pattern of a rising proportion of corporate
12 bonds and mortgages is similar to that of the life
13 insurance companies, although the trust companies have
14 consistently placed more emphasis on Canadas, possibly
15 because of their greater need for liquidity arising
16 out of their deposit and certificate liabilities.
17 Their portfolio structure may also be affected by the
18 trustee acts of the various provinces in which the
19 trust companies are located and which are similar to,
20 but in some instances more restrictive than, the require-
21 ments of the Canada and British Insurance Companies Act.
22 Those of New Brunswick appear particularly restrictive,
23 for example the purchase of local municipal bonds only.

24 (l) The mortgage loan companies are usually
25 grouped with the trust companies for purpose of analysis.
26 As their name implies, their principal assets consist
27 of mortgages, but they do hold some bonds, mainly
28 Canadas, which again presumably are to provide liquidity
29 against possible withdrawal of deposits. Total bond
30 holdings increased from \$58 million in 1951 to \$104



institutional market for bonds. Their assets increased from \$414 million to \$1,210 million in the last decade and these can be taken as the trust companies' own funds, and their "guaranteed funds" which originate from savings deposits, and from the sale of savings trust or guaranteed investment certificates amounting in one to five years. Not included are the very much larger totals of funds administered by trust companies -- estates, trusts, pension funds and safe custody.

(k) The pattern of a rising proportion of corporate bonds and mortgages is similar to that of the life insurance companies, although the trust companies have consistently placed more emphasis on Canadian, possibly because of their greater need for liquidity arising out of their deposit and certificate liabilities. Their portfolio structure may also be affected by the trustee acts of the various provinces in which the trust companies are located and which are similar to, but in some instances more restrictive than, the requirements of the Canada and British Insurance Companies Act. Those of New Brunswick appear particularly restrictive, for example the purchase of local municipal bonds only.

(l) The mortgage loan companies are usually grouped with the trust companies for purpose of analysis, and they do hold some bonds, mainly Canadian, which again presumably are to provide liquidity



1 million in 1960.

2 Trusteed Pension Funds, Credit Unions and Mutual Funds

3 (m) Trusteed pension funds provide a very large
4 market for bonds, particularly corporates, although
5 these funds have been devoting an increasing proportion
6 of their capital accretion in recent years in common
7 stock and mortgages. As might be expected, the pension
8 investments of the various governments are heavily
9 weighted towards their own issues.

10 (n) Several pension funds have become active
11 participants in the bond market in the past few years
12 and, to some extent, carry out switching between issues.
13 Most of the pension funds, however, have been growing
14 so rapidly that the fund managers have been concerned
15 more with the placing of new money than with the re-
16 arrangement of the portfolio. Nevertheless at least
17 one of the largest industrial pension funds in 1961
18 disposed of a substantial volume of discount Canadas,
19 placing the proceeds in higher coupon Canadas,
20 provincials, municipals and corporate bonds and in common
21 stocks. These trading operations had a considerable
22 market impact.

23 (o) The credit unions, including the caisses
24 populaires in the Province of Quebec, held \$279 million
25 in "investments" at the end of 1960, up from \$85 million
26 in 1948 and \$144 million in 1954. This category excludes
27 mortgages, which are shown separately, and, presumably,
28 consists mainly of bonds. The only available breakdown
29 is that published by the caisses populaires, the assets
30 of which constitute about 60 per cent of the total assets



March 1944

(m) Trustee pension funds provide a very large market for bonds, particularly corporates, although these funds have been devoting an increasing proportion of their capital resources in recent years in common stock and mortgages. As might be expected, the pension investments of the various governments are heavily weighted towards their own issues.

(n) Several pension funds have become active participants in the bond market in the past few years and, to some extent, carry out arbitrage between issues. Most of the pension funds, however, have been growing so rapidly that the fund managers have been concerned more with the placing of new money than with the re-arrangement of the portfolio. Nevertheless at least one of the largest industrial pension funds in 1944 disposed of a substantial volume of discount Canadian, placing the proceeds in higher coupon Canadian,

provincials, municipals and corporate bonds and in common stocks. These trading operations had a considerable

(c) The credit unions, including the caisse populaires in the Province of Quebec, held \$29 million in "investments" at the end of 1940, up from \$11 million in 1938 and \$14 million in 1944. This category includes mortgages, which are shown separately, and, presumably, consists mainly of bonds. The only available breakdown is that published by the caisse populaires, the assets of which constitute about 60 per cent of the total assets



1 of Canadian credit unions. At the end of 1960, the
2 caisses held \$212 million in bonds, including \$24 million
3 in Canadas, \$35 million in provincials, \$106 million in
4 municipals and \$47 million in religious issues.

5 Sales in Foreign Countries

6 (p) Non-residents form the third main group of
7 buyers in the list and comprise mainly American insurance
8 companies, pension funds and foundations. The Bank of
9 Canada estimates that non-resident investors held
10 \$820 million in Government of Canada bonds at the end
11 of 1961, or less than 5 per cent of the total outstanding.
12 Their holdings of provincials, municipals and corporates
13 aggregated some \$5200 million, or close to 30 per cent
14 of the gross amount of these bonds outstanding. There
15 appears to be a good correlation over the years between
16 non-resident holdings of provincials and municipals
17 and foreign pay Canadian issues of these bonds and it
18 is reasonable to conclude that most non-resident holdings
19 of these bonds are of the foreign pay variety.

20 (q) The relative attractiveness of Canadian pay
21 issues for American institutional investors is based
22 upon a great many factors, psychological as well as
23 material and, apart from pure yield considerations, varies
24 according to each institution's tax surplus position, past
25 experience with Canadian issues, general view of Canada
26 and expectations about the future course of the exchange
27 rate. The first test is that the bonds be "cheaper"
28 than corresponding U.S. issues; establishing relative
29 cheapness is not a simple matter because some assumptions
30 have to be made about the exchange rate. Buyers in the



Canadian credit ratings. At the end of 1965, the

Canada held \$215 million in bonds, including \$20 million

in Canada, \$35 million in provinces, \$100 million in

municipals and \$40 million in foreign issues.

Sales in Foreign Countries

companies, pension funds and foundations. The Bank of

Canada estimates that non-resident investment in

\$820 million in Government of Canada bonds at the end

of 1961, or less than 5 per cent of the total outstanding

Their holdings of provinces, municipalities and corporations

aggregated some \$820 million, or close to 80 per cent

of the gross amount of these bonds outstanding. There

appears to be a good correlation over the years between

non-resident holdings of provinces and municipalities

and foreign pay Canadian issues of these bonds and in

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than corresponding U.S. issues, especially if relative

cheapness is not a simple matter because some institutions

have a lower cost of funds than the exchange rate. Buyers in the



1 United States use a variety of tests to determine the
2 spread in yield at which they consider Canadian
3 internal bonds attractive compared to United States
4 domestic bonds. Generally, an attempt is made to achieve
5 a rate spread after allowing for differences in exchange
6 which could yield a worthwhile increase in income and,
7 at the same time, write in a reserve against exchange
8 losses. When the Canadian dollar was substantially
9 above par, some U.S. buyers used par as a basis for
10 their calculations, with the general idea of providing
11 themselves with some protection against a fall in the
12 Canadian dollar. As the Canadian dollar fell in 1961
13 and 1962 the U.S. buyers tended to increase the size
14 of their exchange reserve requirements.

15 (r) One problem the U.S. insurance company buyer
16 faces is that bonds in foreign currencies must be
17 revalued annually and any exchange losses written off
18 immediately against surplus or other profits. This tends
19 to make Canadian issues more attractive for well
20 established U.S. insurance companies with large surpluses
21 than for the new companies with less of a cushion
22 against foreign exchange losses. Another problem is the
23 withholding tax on Canadian pay issues and the extent to
24 which the buyer can offset the tax against domestic
25 income tax. The Canadian budget of December 1960,
26 by increasing the withholding tax on Canada and
27 provincial issues to the former level of 15 per cent,
28 and by imposing this tax on U.S. pay Canadian issues,
29 did have a substantial dampening effect on sales of
30 Canadian bonds in the United States.



United States use a variety of tests to determine the spread in yield at which they consider Canadian internal bonds attractive compared to United States domestic bonds. Generally, an attempt is made to achieve a rate spread after allowing for differences in exchange which could yield a worthwhile increase in income and, at the same time, write in a reserve against exchange losses. When the Canadian dollar was substantially above par, some U.S. buyers used par as a basis for their calculations, with the general idea of providing themselves with some protection against a fall in the Canadian dollar. As the Canadian dollar fell in 1961 and 1962 the U.S. buyers tended to increase the size of their exchange reserve requirements.

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(s) Finally, Canadian bond sales in the United States may be affected by the changing image of Canada in the eyes of the U.S. buyer. Since the war Canada has generally been regarded as a well-managed country in which their funds were reasonably safe and it is questionable if Americans gave Canadian internal policies much thought for most of the period. In recent years, however, events and trends may have cautioned American buyers to doubly-weigh their Canadian investments. This was particularly noticeable in the spring and summer of 1962 when the U.S. buyers became increasingly suspicious of the continuing large budgetary deficits of the Federal Government. Their disenchantment with Canadian securities was intensified by the declining exchange value of the Canadian dollar, culminating in the balance of payments crisis in June, 1962. In summary, although the United States will probably continue to be an important source of funds for Canadian borrowers, the flow of bond capital northward may not move as freely as it has in recent years. Spreads in yield are less likely to be the primary determinant than the view Americans take of the stability of the Government and of its budgetary, monetary and exchange rate policies.

Sinking and Purchase Funds

(t) The bond holdings of provincial governments at the end of 1960, including provincial pension plans, sinking funds, hydro-electric commissions and workmen's compensation boards, were estimated by the Bank of Canada to be \$2556 million at the end of 1960. Of this total, \$1662 million were provincial bonds, \$568 million Canadas,



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Sinking and Purchase Bonds

(c) The bond policies of provincial governments
at the end of 1960, including provincial pension plans,
sinking funds, hydro-electric commissions and northern
million were provincial bonds, \$300 million Canadian



1 \$286 million municipals and the remaining \$39 million
2 corporate and other. In effect, of a total gross-
3 provincial direct and guaranteed debt of \$6848 million
4 at that date, nearly one-quarter was held by the
5 provinces themselves in various accounts.

6 (u) The steady accumulation of their own bonds
7 by the provinces has had important market effects.
8 The fact that a province stands ready to buy back its
9 own bonds at a price improves the market for its issues
10 by mopping up speculative and distress selling. Further-
11 more, the knowledge that the buyer power is there -- if
12 limited -- tends to prevent the distress selling that was
13 so evident in the market for long-term Canada bonds
14 in 1959 and 1960. Most of the provinces have statutory
15 sinking funds ranging from 1 per cent to 3 per cent
16 annually.

17 (v) The sinking or purchase fund can also be very
18 useful in helping a new issue over the difficult
19 launching period. In most issues there are some bonds
20 which find their way into the hands of speculators
21 or traders and into dealer inventory. These bonds
22 are not "put away" but overhang the market and may
23 threaten the success of the issue if any general market
24 indigestion or weakness appears. By skimming off this
25 floating supply, not necessarily at a profit to the
26 speculators, the sinking fund (or any other similar
27 fund the issuer cares to use) can prevent the issue
28 from being a failure.



\$286 million municipalities and the remaining \$99 million corporate and other. In effect, of a total gross-provincial direct and guaranteed debt of \$694.8 million at that date, nearly one-quarter was held by the provinces themselves in various accounts.

(u) The steady accumulation of their own bonds by the provinces has had important market effects. The fact that a province stands ready to buy back its own bonds at a price improves the market for its issues by mop-up speculative and distress selling. Furthermore, the knowledge that the buyer power is there -- if limited -- tends to prevent the distress selling that was so evident in the market for long-term Canada bonds in 1959 and 1960. Most of the provinces have statutory sinking funds ranging from 1 per cent to 3 per cent annually.

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M. FINANCIAL INVESTMENTS BY MUNICIPALITIES

(a) The major short-term investments of municipalities generally occur immediately in the wake of any tax payment period when large surplus sums of money become available to the municipality. These surplus funds are immediately invested in short-term securities pending the time when the funds are required for the normal expenditures of the municipality.

(b) The principal outlets for municipal short-term investments are:

(1) Treasury bills and other short-term Government securities.

(2) Bank-term deposits.

(3) Trust Company term deposits.

(4) U.S. Treasury bills.

(5) Commercial finance paper.

(c) Long-term investments are made for sinking fund requirements, municipal employees' pension funds and other similar municipal funds. These investments are, as a rule, restricted to trustee securities. In the case of employee pension funds, and similar municipally administered funds, some municipalities invest a part of the holdings in high-grade mortgages. Investments for sinking fund requirements are generally in securities that are readily marketable or timed to fit the maturity needs of each municipal fund.

A well-managed municipal portfolio will also take into consideration opportunities to increase the revenue earned on such investments by switching from low-yield securities to high-yield securities whenever this is possible.



INVESTMENT POLICY STATEMENT

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(b) The principal outlets for municipal short-term investments are:

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- (2) Trust Company term deposits.
- (3) U.S. Treasury bills.
- (4) Commercial bank deposits.

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N. MUNICIPAL BORROWING IN THE
UNITED STATES

(a) A difficult choice for municipalities, insofar as their capital borrowing is concerned, is the selection of the market to approach for funds. For many municipalities -- particularly the larger ones but not necessarily confined to them -- the basic decision is whether to borrow in Canada or to test the U.S. market. If the borrowing is done in the United States, the form it takes will, in most instances, be along conventional lines, that is, serial or long-term bonds.

(b) The decision to go to the United States market will depend essentially on the following factors:

- (1) The availability of money in Canada.
- (2) The spread in interest rates between the two countries.
- (3) The exchange rate at which the transaction is to be carried out.
- (4) The prospective future cost of purchasing United States dollars for debt service.
- (5) The Federal Government's attitude towards foreign borrowing.

(c) Most municipalities prefer to borrow in the Canadian market if money is available at reasonable rates. They are mindful that borrowing in foreign funds involves the risk of exchange rate fluctuations and, moreover, in calculating relative borrowing costs assumptions have to be made about the unpredictable future value of the Canadian dollar in U.S. terms.

(d) A substantial saving in interest rates on U.S.



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(a) A difficult choice for municipalities, insofar as their ability to raise funds is concerned, is the availability of the market to approach for funds. For many municipalities -- particularly the larger ones but not necessarily confined to them -- the basic decision is whether to borrow in Canada or to visit the U.S. market. If the borrowing is done in the United States, the form it takes will, in most instances, be along conventional lines, that is, serial or long-term bonds.

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1 borrowing can be subsequently offset by a fall in the
2 exchange rate. For example, those municipalities
3 which in 1959 were forced into the U.S. market because
4 of the tightness of money and high interest rates in Canada
5 converted the proceeds of their U.S. loans when the
6 Canadian dollar averaged \$1.04 U.S. Subsequently, the
7 cost of servicing such loans has risen by over 10 per
8 cent. As a consequence, current exchange costs have
9 effectively offset any interest rates saving at the
10 time of issue. However, the net gain or loss can only
11 be measured by averaging the exchange rate over the life
12 of the issue and including the cost of the U.S. funds
13 when the bonds are redeemed.... An official of one
14 municipality which borrowed in the United States in July
15 1962 has estimated that the City would be ahead if the
16 average value of the Canadian dollar over the life of
17 the issue remained above eighty-six cents U.S.

18 (e) In spite of the exchange rate problem, most
19 municipalities feel that it is a sound and sensible
20 policy to borrow at least occasionally in the United
21 States. There are times, such as in 1959, when borrowing
22 in Canada is very difficult if not impossible. In such
23 circumstances the U.S. market provides a useful emergency
24 source of money. Moreover, even if the borrowing can
25 all be done in Canada, a U.S. issue relieves pressure
26 on the Canadian market for the issuer's bonds and may,
27 thereby, make it possible to sell a subsequent Canadian
28 issue on a lower yield basis.

29 (f) The extent of municipal borrowing abroad
30 over the period 1954 to 1961 (mainly in the United

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States) is shown in the following table:

PROCEEDS OF NEW ISSUES OF CANADIAN MUNICIPAL
BONDS AND DEBENTURES SOLD TO NON-RESIDENTS (1)

(In Millions of Dollars)

	1954	1955	1956	1957	1958	1959	1960	1961
Payable in Canadian Currency	11	4	6	8	5	10	16	7
Payable in Foreign Currency	34	40	105	115	143	148	119	28
							(2)	
TOTAL	45	44	112	123	148	158	135	36

By Comparison, the total
of all new issues of bonds
and debentures, both
government and corporate,
sold to non-residents in
these years
was:

312	103	597	737	634	660	421	456
-----	-----	-----	-----	-----	-----	-----	-----

Comparative Costs of American and Canadian
Municipal Borrowing

(g) The interest cost for Canadian municipal bonds
is substantially greater than that of municipalities
in the U.S.A. due, in part, to the fact that income
from municipal and state bonds in the United States is free
of income tax.

According to Gordon L. Calvert, Municipal Director,
Investment Bankers Association of America, this freedom
from the federal income tax is based on recognition
by the U.S. Supreme Court of the constitutional doctrine

(1) D.B.S.: Sales and Purchases of securities between
Canada and other countries Dec. 1961 and Review of
Security Trading during 1961.

(2) In 1960, the City of Quebec floated an issue in Switzer-
land of \$4.5 million with an interest rate of $4\frac{1}{2}$ per
cent payable in Swiss francs. (18 year loan repayable
in seven annual payments commencing in 1972).



(in Millions of Dollars)

	1954	1955	1956	1957	1958	1959	1960
Payable in Currency	11	4	6	8	5	10	16
Payable in Government and corporate bonds	34	40	105	125	143	143	119
TOTAL	45	44	112	123	143	153	135
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(1) U.S.A.: Sales and purchases of securities between Canada and other countries Dec. 1951 and Review of Security Trading during 1951.

(2) In 1960, the City of Quebec floated an issue in Switzerland of \$4.5 million with an interest rate of 4 1/2 per cent payable in Swiss francs. (18 year loan repaid in seven annual payments commencing in 1962).



1 of "reciprocal immunity"⁽¹⁾. There have been a long
2 series of court cases on this question. One of the
3 earliest and most relevant is the 1895 judgment.

4 "Pollock vs Farmers Loan & Trust Co. 157 U.S. 429"

5 which is referred to by Mr. Calvert. He quotes the
6 Supreme Court as stating in this case:

7 "It is contended that although the property
8 or revenues of the states or their instrumental-
9 ities cannot be taxed, nevertheless the
10 income derived from states, county and municipal
11 securities can be taxed. But we think the
12 same want of power to tax the property or
13 revenues of the states or their instrumental-
14 ities exists in relation to a tax on the income
15 from their securities and, for the same reason,
16 it is obvious that taxation on the interest
17 therefrom would operate on the power to
18 borrow before it is exercised and would have
19 a sensible influence on the contract, and
20 that the tax in question is a tax on the
21 power of the states and their instrumentalities
22 to borrow money and, consequently, repugnant
23 to the Constitution."

24 (h) In later years litigation continued because
25 of the growing importance of the income tax as a source
26 of revenue. Since many tax-exempt bonds end up in the
27 portfolios of those in the highest tax brackets, the

28
29 (1) "Fundamentals of Municipal Bonds" (By Gordon
30 L. Calvert) published by Investment Bankers
Association of America.



of "reciprocal immunity" (1). There have been a long series of court cases on this question. One of the earliest and most relevant is the 1895 judgment, "Follock v. Farmington Loan & Trust Co., 157 U.S. 499" which is referred to by Mr. Calver. He quotes the Supreme Court as stating in this case:

"It is contended that although the property or revenues of the states or their instrumentalities cannot be taxed, nevertheless the income derived from states, county and municipal securities can be taxed. But we think the same want of power to tax the property or revenues of the states or their instrumentalities exists in relation to a tax on the income from their securities and, for the same reason, it is obvious that taxation on the interest thereon would operate on the power to borrow before it is exercised and would have a sensible influence on the contract, and that the tax in question is a tax on the power of the states and their instrumentalities to borrow money and, consequently, repugnant to the Constitution."

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exemption provides a loophole of increasing concern to the federal authorities. However, opposition to removing the exemption has remained strong because of the fear that its abrogation would lead to federal domination and control of the states. As Mr. Calvert noted:

"The tax exemption for interest on municipal bonds is essential to state and local government, not only to obtain a much lower rate of interest on these bonds than would be obtained without such tax exemption but, more basically, to protect their independent sovereignty under our dual state-federal system of government."

(1) How much lower rates the U.S. states and local governments obtain from tax-exemption of their bond issues is difficult to calculate, but the following information taken from the Wall Street Journal of March 1, 1962, provides some idea of the level of U.S. state and municipal yields:

Issuer	Size & Form of Issue	Cost to Borrower of Selling Price
Tennessee	\$12.3 million serials 1963-82	1.65% to 3.10%- Av.2.96%
Massachusetts	\$40.0 " " 1963-82	1.70% to 3.20%- Av.3.05%
Rhode Island	\$ 4.3 " " 1963-92	1.70% to 3.45% -
City of Columbus, Ga.	\$ 3.5 " " 1963-91	1.80% to 3.55% -
Prince George County, Md.	\$11.5 " " 1963-85	1.75% to 3.40% -
Orleans Parish, La.	\$10.0 " " 1962-2001	1.50% to 3.70%-Av.3.55%

(j) The average yield on the twenty-year maturities in the above list was about 3.25 per cent (which was close

would be obtained without such tax exemption lower rate of interest on these bonds than local government, not only to obtain a much municipal bonds is essential to state and

U.S. state and municipal fields:

(1) The average yield on the twenty-year maturities in the above list was about 3.25 per cent (which was close



1 to a three-year low on tax-exempt yields). On the same
2 day U.S. Treasuries of equivalent term were selling at
3 about a 4.00 basis and new issues of twenty-year and
4 thirty-year private utility bonds were offered slightly
5 under a 4.50 basis. In Canada, top-grade provincials
6 would sell on a yield basis between Canadas and utility
7 issues, best quality municipals on about the same basis
8 as utility bonds and lower grade municipal bonds at
9 25 to 50 basis points above utilities or about 1.00
10 per cent above Canadas.

11 (k) It would be reasonable to assume from these
12 figures that if the same good market for tax-exempt
13 bonds existed in Canada as in the United States, the
14 saving to provinces and municipalities from exemption
15 of their bonds from income tax would be a minimum
16 of 1 per cent on the coupon and, possibly, $1\frac{1}{2}$ or more,
17 given the higher yield structure in Canada.

18 (1) The assumption about markets, however, needs
19 careful examination. Proportionately there is a much
20 greater concentration of wealthy people in the United
21 States than in Canada and it is questionable if the
22 demand from individuals in Canada for tax-exempts would
23 provide anything like the amount of capital that
24 provinces and municipalities borrow annually. The
25 demand would be strong for short-term tax-exempt
26 bonds from corporate investors because many short-term
27 instruments now are tailored to fit accounts paying
28 50 per cent income tax, but for many institutional
29 buyers of long-term bond issues tax considerations are
30 not important.

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(m) It would be interesting to see how much Canadian private capital now employed in various tax avoidance schemes could be tempted into tax-exempt provincial or municipal bonds. There is no obvious reasons why this form of assistance, with all its unhappy political connotations of tax evasion, should be preferred to any other form of federal assistance to junior governments. In defence of the principle, however, is the fact that the U.S. system recognizes clearly that state and local governments have a right to some financial independence from Washington. In their borrowing, Canadian municipalities and provinces are at the mercy of a market in which conditions are greatly affected by fiscal, monetary and debt management policies set by the Federal Government and from which there is no court of appeal.

O. LIMITATIONS OF MUNICIPAL FINANCING
RESULTING FROM FEDERAL TAX
PRACTICES

1. Comparison between Municipal and Corporate Borrowers

(a) In comparing their position with corporate borrowers, the municipalities (and, presumably, the provinces) feel that they merit special consideration by the Federal Government. Interest on corporate bonds is a cost of doing business and a deduction from income before taxes. A corporation therefore tends to regard the coupon of a bond as half chargeable against income tax. While it is technically incorrect to argue that corporate borrowing is actually subsidized



Canadian view on this subject is that

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1 by the federal treasury, the effect is somewhat similar
2 and tends to tilt corporations towards bond issues
3 rather than equity financing. This, in turn, increases
4 the pressure on the market generally and may raise
5 costs for other borrowers.

6 (b) In addition, there is some feeling that the
7 dividend tax credit on stocks has made the purchase
8 of them for the individual so attractive that bonds
9 have lost their attractiveness for the individual
10 investor. This has made all bonds more difficult to
11 sell and raised interest rates. While the argument
12 in favour of reducing double taxation on common stock
13 has some weight, there is less justification for a tax
14 deduction on preferreds and this, in effect, represents
15 an additional government subsidy for an instrument
16 that competes with bonds in the capital market....

17 In this connection, it is interesting to note that in
18 Australia a 10 per cent tax credit is granted on
19 interest on Commonwealth and State bonds, applicable to
20 both personal or corporate income.

21 2. Property Tax Exemption and Double Taxation

22 (c) In the application of the property-tax,
23 Canadian municipalities (compared to those of the U.S.A.
24 and several other countries) suffer a severe limitation
25 arising from a feature of our federal income tax
26 legislation. In effect, Canadian property owners
27 are subject to double taxation on that portion of their
28 income used to pay municipal and provincial taxes. In
29 the United States, all payments made on state or
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1 in computing taxable income. The principle on which
2 this is based is, in part, the theory of "reciprocal
3 immunity" cited earlier, but also that, without such
4 exemption, the property owner is subject to double
5 taxation.

6 (d) It is only by allowing such an exemption
7 that municipalities can be given full use of the property
8 tax field. A simple calculation will show that, by allow-
9 ing deduction of municipal taxes from income, the
10 Federal Government would enable municipalities to
11 raise a substantially greater revenue from the property
12 tax. Inasmuch as, in theory, our national policy
13 intends the property tax to be fully at the disposal
14 of the municipality, there appears to be no justification
15 for the severe attenuation of that field of taxation
16 which results from the present federal taxation of
17 the personal income used to pay municipal taxes.

18 (e) Another severe handicap for Canadian
19 municipalities (in comparison with municipalities
20 in the U.S. and the U.K.) is the federal taxation of
21 that portion of personal income used to pay mortgage
22 interest on owner-occupied homes. Where such interest
23 is deductible, from income for tax purposes, higher
24 municipal revenue from taxes is possible.

25 (f) It should also be noted that such taxes
26 and interest are deductible by corporations or individuals
27 who hold property for business or income purposes and,
28 in this respect, are similar to interest paid on
29 borrowed money.

30 (g) It is suggested that the Royal Commission



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1 should study this question of the several handicaps
2 to municipal financing resulting from federal tax
3 practices and make recommendations to the Federal
4 Government.

5
6
7
8 P. FUTURE MUNICIPAL CAPITAL REQUIREMENTS

9 (a) The capital expenditures of municipal
10 governments -- in these days -- embrace more than their
11 traditional responsibility for the installation of local
12 improvements and the provision of community institutions
13 such as schools, hospitals, library, park and recreational
14 facilities.... Above and beyond the "social" facilities
15 and institutions -- normally required by the residential
16 population -- are the "economic" facilities arising
17 from the particular and growing requirements of commerce
18 and industry.... As at no previous time, municipal
19 governments are being called upon to provide costly
20 installations (urban highways and expressways, mass
21 transit facilities, water and sewage facilities, etc.)
22 essential to the "economic" as well as the "social"
23 activities of our expanding urban communities.

24 (b) To take full account of municipal needs for
25 capital expenditures it is necessary therefore to think of
26 the municipality as a unit of government responsible
27 not only for the "social" needs of its citizens but
28 also for those basic and costly "economic" needs which,
29 under modern conditions, are properly the responsibility
30 of municipal governments, to provide even though such needs

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F. FEDERAL FINANCIAL HANDICAPS

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1 are generated, in large part, by "users" whose plant
2 or operating facilities -- or places of residence --
3 are located beyond the corporate limits of the providing
4 municipality.... In effect, municipal governments --
5 particularly the larger metropolitan cities -- are called
6 upon to provide costly installations, the benefit of
7 which accrues to non-resident and, therefore, non-tax
8 paying users.

9 (c) Some idea of the looming capital needs of
10 municipal governments was indicated in the forecast
11 made by the Royal Commission on Canada's Economic
12 Prospects. These calculations, published in November
13 1957, were related to what were described as requirements
14 for "housing and social capital". While the require-
15 ments included estimated capital expenditures on roads
16 and streets (the largest single item in the estimated
17 forecast) no provision was made for mass transit and
18 commuter railway facilities. Nor was there any apparent
19 inclusion for the municipal costs of urban re-development.

20 (d) Despite these omissions, the Commission
21 estimated that by 1980 social capital expenditures
22 will be required in Canada to the amount of \$19.5
23 billion for roads and streets; \$4.2 billion for schools
24 and universities; \$2.7 billion for hospitals; \$2.7
25 billion for sewerage systems; and \$2.4 billion for
26 waterworks. The total estimate of capital expenditures
27 on these items alone amounts to \$31.5 billion.... The
28 greater part of these expenditures will devolve upon
29 the municipal governments.

30 (e) If there is validity in these estimated figures,

are located beyond the corporate limits of the providing municipality.... In effect, municipal governments -- particularly the larger metropolitan cities -- are called upon to provide costly installations, the benefit of which accrues to non-resident and, therefore, non-tax paying users.

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(d) Despite these omissions, the Commission estimated that in 1970-71 the total requirements for housing and social capital would be \$1.5 billion. This amount will be required in Canada for the amount of \$1.5 billion for roads and streets; \$4.2 billion for schools; \$1.5 billion for sewage systems; and \$2.4 billion for other items alone amounts to \$9.6 billion.... The greater part of these expenditures will devolve upon the municipal governments.

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1 then, by 1980, the aggregate municipal debt in Canada
2 for these purposes will have soared from its present
3 approximate \$4 billion to a figure somewhere in the
4 range of \$20/25 billion. Even if it is only half this
5 figure, it will be a staggering amount. The more so
6 when it is remembered that \$3 billion (or more) of the
7 present \$4 billion municipal debt load has occurred
8 over a twelve-year period; an average rate of \$250
9 million a year.

10 (f) Assuming that municipal borrowing require-
11 ments in the next eighteen years (by 1980) will be one
12 quarter of that estimated by the Royal Commission on
13 Canada's Economic Prospects, say, \$8 billion, then the
14 average annual capital borrowing requirements of
15 municipal governments between now and 1980 will be
16 somewhere in the range of \$500 million -- twice the
17 amount of their average annual borrowing since 1950.
18 This may be a high or a low estimate, but, whatever
19 the actual figure may be, certainly it will be one of
20 considerably greater magnitude than has typified
21 municipal capital expenditures during the past decade.

22 (g) The magnitude and urgency of local government
23 or "social capital" needs was also stressed in the more
24 recent report (June 1961) of the Special Senate Committee
25 on Manpower and Employment. The reasons were stated
26 by the Senate Committee as follows:

27 "The maintenance of an adequate rate of
28 economic growth requires a continuing high
29 level of capital investment, both private
30 and public. Private capital investment



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(2) The magnitude and urgency of local government or "social capital" needs was also stressed in the more recent report (June 1961) of the Special Senate Committee on Manpower and Employment. The reasons were stated by the Senate Committee as follows:

"The maintenance of an adequate rate of economic growth requires a continuing high level of capital investment, both private and public. Private capital investment



1 must be supplemented and stimulated by an
2 adequate rate of government investment in
3 social capital. Our stock of social capital
4 is both inadequate and, in many respects,
5 obsolescent, especially in our rapidly
6 expanding urban areas. We are in a continuing
7 danger of choking our economic growth with
8 congestion, pollution, the development of
9 slums, and with the effects of deficiencies
10 in vital public services and amenities. The
11 bottlenecks appear to lie in the methods of
12 financing, in lack of planning and in the
13 difficulties of achieving effective co-operation
14 between the three levels of government. The
15 solution of these problems requires new
16 thinking, experimentation and the development
17 of new machinery for financing, planning and
18 inter-governmental co-operation. The initiative
19 taken recently by the Federal Government to
20 encourage a more adequate provision of sewerage
21 facilities is an example of what is needed.
22 The scale of capital financing required in the
23 future for municipal works is so large that a
24 new measure of responsibility is required
25 in the raising of such funds on the part of the
26 provincial and federal governments. Here,
27 perhaps, is the basis on which a solution to the
28 other problems of better planning and the
29 development of better machinery for co-operation
30 might, also, be sought." (1)

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(h) The need to go beyond monetary and fiscal measures -- to recognize that priorities must be established in deciding the nation's investment policy and that this involves a qualitative appraisal of objectives -- is clearly implied in the two reports mentioned.... Wasteful and unproductive investment or "choking our economic growth with congestion, pollution, the development of slums, and with the effects of deficiencies in vital public services and amenities" -- these, as well as flaws in tax or monetary policy, are inimical to a sound Canadian economy. The Royal Commission on Canada's Economic Prospects concluded its chapter on "Housing and Social Capital" by pointing out that "the real problem to be faced by Canadians in this field is not going to be one of fundamental inability to pay. It will be, rather, one of deciding what proportion of a growing national income should be devoted to the building of those things which only the community can provide and of developing the best possible fiscal and administrative arrangements to make that decision effective...."

The Need for a National Municipal Borrowing Programme

(i) It is in this context that we see the necessity for an effective partnership between all levels of government for the purpose of providing and facilitating the capital borrowing needs of municipal governments in the period ahead.

(j) Another reason for such a partnership is the

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1 physical inter-relationship between housing, urban
2 transportation, harbour and airport facilities, federal
3 and provincial works, municipal utility services, water
4 conservation and the provision of recreational space for
5 a rapidly increasing urban population. All such
6 facilities are inter-related parts of the physical
7 development which constitutes a new or re-developed
8 city (or region). No part can be considered in isolation
9 from the others. Each is an essential segment of the
10 urban pattern which must, for the purpose of design and
11 financing, be seen as a whole.

12 (k) Another reason why joint responsibility is
13 essential is that the burden of cost which community
14 growth and development imposes upon all levels of
15 government is so great as to require the closest possible
16 collaboration between them: first, in the programming
17 of such works and, second, in the mobilizing of capital
18 for the entire programme.

19 (l) In recent federal legislation (allowing
20 federal loans for long-terms based on the federal
21 government's borrowing rate) and in the urban renewal
22 legislation (allowing a direct federal investment of
23 50 per cent of the cost of acquiring and clearing land
24 for re-development) the federal government has taken
25 important steps toward assisting in investment in
26 essential community development.⁽¹⁾

27 (m) The experience with the sewer legislation
28 illustrates clearly the significance of federal
29 initiative and co-operation in solving the problem

30 (1) National Housing Act re (a) Sewerage Loan Facilities
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1 of borrowing for basic community facilities. The eager-
2 ness of the local governments in taking advantage of
3 the direct long-term sewer financing is convincing
4 evidence that their need -- as far as basic municipal
5 works are concerned -- is for federal assistance in
6 arranging the capital financing of such projects.

7 (n) They require such assistance because of the
8 handicaps under which they operate insofar as capital
9 borrowing is concerned. These handicaps arise, at least
10 in part, from the fact that the magnitude of municipal
11 borrowing needs -- in these times -- has strained
12 the limitations dictated by a municipal tax revenue
13 structure which was never conceived to meet capital
14 needs of these proportions.

15 (o) It is not that our urban communities are poor.
16 There are some exceptions: ⁽¹⁾ but, in the main, the
17 productive wealth of the nation is concentrated in them
18 and is continuing to increase. Most of this wealth,
19 however, is already pre-empted for tax purposes by the
20 senior governments so that municipal governments
21 have no access to it. As a consequence, municipalities
22 are unable to command sufficient income from the total
23 taxable wealth resources of the community to support
24 the growing burden of costs involved in undertaking
25 the community improvements which are needed.

26 (p) A further consideration affecting municipal
27 improvement programmes is that the ability of municipal
28 governments to borrow is by no means uniform throughout
29 the country. The larger municipalities are in the most
30 preferred position, although even they have their

⁽¹⁾The exceptions are those communities in various parts of the country whose economic base is withering away and for whom special re-development measures have become imperative

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difficulties. The smaller municipalities are in the worst position. It is frequently difficult to market the debentures of a smaller municipality and, at times, there is no market receptivity for such issues at all. (q) Moreover, during recurrent periods in recent years, the capital market for municipal bonds has tightened considerably. Because of the general shortage of capital investment funds the market has been more selective with interest rates reflecting the competition of both private and public borrowers for a share of the limited supply. The cost of borrowing has soared to the point where in 1961 new municipal bond issues of even high-rated municipalities were being offered at a yield price of 6.30 per cent to 6.35 per cent, with the yield price of smaller municipalities being offered at as much as 7.75 per cent.

(r) While effective yield prices of 6 to 7 per cent and more may not present any grave financing problem to private borrowers who require capital for productive business and industrial purposes, the same cannot be said for municipal governments whose capital borrowings are used, in the main, for socially useful community improvements.... As shown by the following table, every percentage point increase in the costs of municipal borrowing adds substantially to the over-all debt carrying charges which the municipality has obligated itself to repay.

COSTS OF MUNICIPAL BORROWING

<u>Amount</u>	<u>Annual Cost Factor</u>
\$1 million for 20 years at 5%	\$ 80,242.59
\$1 million for 20 years at 6%	87,184.56
\$1 million for 20 years at 7%	94,392.93
\$1 million for 20 years at 8%	101,852.27

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COSTS OF MUNICIPAL BORROWING

Amount	Annual Cost Factor
\$1 million for 20 years at 3%	101,352.27
\$1 million for 20 years at 4%	94,392.93
\$1 million for 20 years at 5%	87,184.56
\$1 million for 20 years at 6%	80,245.29



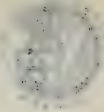
Q. NATIONAL MUNICIPAL LOAN FUND

(a) The recurrent major fact which emerges from this submission is that municipal governments are experiencing difficulty with respect to their capital borrowing requirements. The difficulty is becoming increasingly acute and, in the view of the Federation -- speaking for the municipal governments of Canada -- there are good and sufficient reasons why the Federal Government, in co-operation with the provinces, should establish a National Municipal Loan Fund for the purpose of facilitating the capital borrowing needs of municipal governments.

(b) There is nothing novel about the principle of this proposal. Municipal loan agencies of this sort have existed in Europe since before the turn of the century. The "Credit Communal" of Belgium was formed in 1860 and has been operating successfully ever since. Similar banks or institutions are in existence in the Netherlands, Spain, Denmark, Norway, Italy, Switzerland, Israel and Turkey; and in the United Kingdom the Public Works Loan Board is in effect a municipal loan bank.⁽¹⁾

(c) A National Municipal Loan Fund or Municipal Development Bank (the name is less important than the purpose of the agency) could be established by the Federal Government with the concurrence and co-operation of the provinces. In order to assure the constitutional position of the provincial governments, loans to any municipality would require the final approval of the province in which the borrowing municipality is located.

⁽¹⁾ See Appendix to the Brief: "National Institutions for Municipal Credit".



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(d) The creation of such a federally-initiated municipal loan fund would relieve municipalities from exposure to some of the vagaries of the market and would reduce their borrowing costs. Federal financial assistance to municipalities has been increasing in recent years and has taken the form of grants for hospitals, vocational and technical schools, housing and sewer projects. The purpose of the loan fund would be to maintain and extend federal financial participation in such durable municipal work requirements. While the Bank would be a new form of intervention, it would be a way of acknowledging that municipalities do have special financing difficulties and would be a useful vehicle for channelling to the municipalities any assistance that federal or provincial authorities might provide to reduce municipal borrowing costs. Its primary purpose, however, would be to marshal the capital funds required by municipal governments and make such funds available to the municipalities.

(e) A possible source of federal funds to enable municipalities to obtain their borrowings at a cost lower than the market rate would be to apply the federal revenues received from the taxation of interest on municipal bonds to municipal loans contracted through the proposed loan agency.

(f) As the municipalities see it, the proposed agency would issue its own securities with a federal guarantee and use the resulting funds for loans to municipal governments at interest rates comparable to those obtained by the Federal Government (less the proposed municipal interest tax subsidy) and thereby make it feasible for any



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1 municipality, large or small, to finance the cost of
2 municipal capital works.

3 (g) In effect, the municipalities are saying that,
4 in their importance as basic community needs, municipal
5 capital works are of equal priority with those of the
6 senior governments. It would, therefore, be fair and
7 equitable to enable municipal governments to have the
8 same advantages as senior governments in respect to the
9 capital market.

10 (h) The establishment of such a fund would not
11 preclude municipalities from seeking capital funds
12 elsewhere; but it would offer an alternative source
13 of funds at more reasonable rates of interest than those
14 now available to all but a few of the larger and better
15 rated municipalities. Moreover, it would have the
16 desirable effect of maintaining a reasonable flow of
17 capital funds to municipal governments during a period of
18 tight money pressure; and, during a recession, could
19 be a buffer against the tendency of the market to shy
20 away from municipal bond borrowing.

21 (i) Another purpose which a national municipal
22 lending agency would serve would be to facilitate
23 borrowing within Canada for Canadian needs. It would
24 therefore be a positive means of implementing the federal
25 government's policy of encouraging reliance upon domestic
26 savings.

27 (j) For three impelling reasons, therefore, a
28 Municipal Development Bank is a missing link:

29 (1) in upgrading municipal capital requirements
30 to the equal status which they deserve with



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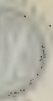
those of the federal and provincial governments;

(2) in facilitating -- for the purpose of assuaging soundly based national growth and development -- the constant review and co-ordination of public investments; and

(3) in implementing, to the advantage of the entire national economy, the policy of drawing to the utmost upon Canadian savings for our capital investments.

(k) The Federation feels that the equalization of the capital needs of municipal governments -- in their approach to the capital market -- will be in the interest of all governments concerned and will be a major step forward in the common effort toward national growth and stability.

(1) The introduction of such inter-governmental co-operation in borrowing would further strengthen democratic governments at the local level. The municipalities would retain the initiative -- and would indeed be in a better position than now to exercise the initiative -- in the planning and execution of comprehensive programmes of capital works. Already more and more of our local governments are preparing long-term capital works budgets based upon carefully considered programmes of physical development. Their principal concern is whether they can finance such undertakings and at what cost. The establishment of a national municipal lending agency, by removing one



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1 of the most frustrating obstacles to municipal develop-
2 ment, would give a sharp incentive to the forward planning
3 of growth and re-development. It would help greatly to
4 keep constantly before each urban area a planned
5 capital development programme which would not only
6 provide work but would direct such work to the satisfaction
7 of basic community needs.

8 (m) This reliance in a democratic manner upon
9 municipal initiative is important. For it is only at
10 the level of the local community that a balanced
11 programme representing the needs and desires of local
12 citizens can be developed. Even a large proportion
13 of Federal and Provincial works (such as roads), bridges,
14 harbour installations, airports and office buildings)
15 must fit into a workable community programme in the
16 interest of all concerned.

17 (n) Municipal responsibility for such programming
18 must therefore be acknowledged and must of course be
19 fully exercised by the municipalities themselves if they
20 are to take advantage of a more favourable relationship
21 to the capital market which a federal lending agency
22 would make possible.

23 (o) The municipal governments contend that there
24 is a strong and clearly defined need to establish such
25 a National Municipal loan agency in Canada and that it is
26 in the national interest to do so. Since the proposal
27 was first put forward there has been a growing body of
28 informed support in favour of the proposal. Certainly,
29 so far as the municipal governments are concerned, it
30 would enable them to initiate and carry through needed

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1 programmes of local improvements and re-development
2 for which the urgency is now very considerable and
3 which in many municipalities, without such a facilitating
4 loan agency, are likely to be indefinitely delayed.



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APPENDIX "A"

NATIONAL INSTITUTIONS IN EUROPE FOR

MUNICIPAL CREDIT

FOREWORD

The structure and responsibilities of local governments in different countries varies widely. Consequently, it is difficult -- if not impossible -- to compare their comparative needs for credit and long-term capital funds....

Moreover, the borrowing requirements of local governments in different stages of economic development, expressed in terms of needs (justified by the financial capacity of the citizens and the community concerned), are always greater than the resources for carrying them into effect (viz., capital, labour, etc.). As a consequence, the provision of credit to local authorities in Europe has developed differently in the different countries depending on the conditions in each country....

In 1954, the International Union of Local Authorities (1) undertook a comprehensive study of the existing facilities for municipal credit in different countries and, at its 1955 Rome Congress, the problem of municipal borrowing was a major item under discussion. The general position taken by the Congress with respect to the matter was summed up in the following resolution:

(1) The International Union of Local Authorities, as its name implies, is an international body consisting, in the main, of national municipal associations in the western world. The Canadian Federation of Mayors and Municipalities is the Canadian member of the I.U.L.A.



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"Appropriate bodies should be set up in each country where they do not already exist in order to resolve the difficulties met with today in finding the funds to implement local authorities programmes. The specific and sole aim of these bodies should be to hold credit for the use of local authorities and they should be assured of adequate funds up to the limit that can be permitted by the respective national economies."

A similar position to the Rome I.U.L.A. recommendation was subsequently adopted by the Consultative Assembly of the Council of Europe which went on record as favouring the foundation of a European Bank for Municipal Credit.

The idea of a European Bank for local authorities is ambitious and suited to the ideal of an integrated Europe. Its successful organization, however, will depend on many factors, such as the idea of integration catching on and the practical development of that integration. Meanwhile, the proposal has provoked intensive study and it is quite probable that sometime in the future a European Bank for local authorities will be realized.

Already there exists in European countries a number of financial institutions that were founded with the sole objective of meeting the credit requirements of local governments.... Despite differences in structure and business procedure (which originate chiefly from differences in the structure of local

51



1 government and of the money and capital market) two
2 main types of municipal credit banks in Europe can be
3 distinguished; (a) the co-operative type formed by
4 local authorities, and (b) the State Municipal Bank.
5 In between there are banks that belong -- as it were --
6 to an intermediate group and where private
7 participation also plays its part. Where national
8 municipal credit institutions have been established
9 it is generally recognized that a certain degree of
10 State supervision is called for in as much as a national
11 credit institution for municipal governments can, by its
12 conduct of affairs, often exert considerable influence,
13 firstly, on the capital market, in which the State is
14 also generally a heavy buyer, and, secondly, on the
15 public welfare level of the population as a whole.

16 Some of the general grounds put forward
17 by European local authorities for the establishment
18 of a central municipal development bank can be summarized
19 somewhat as follows:

- 20 (a) As a rule municipal governments do not
21 dispose of all of their ordinary revenue
22 as soon as it has come in.
- 23 (b) There exists, therefore, a certain time
24 lag between the receiving and the spending
25 of municipal revenues.
- 26 (c) The centralizing of these temporary
27 surpluses creates a basis for the granting
28 of short-term credits to other local
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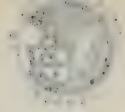
(d) This means interest earnings for the central bank which enables it to pay interest on the funds deposited with it by surplus local authorities.

(e) Through the facilities of a municipal credit bank there thus can be realized a mutual assistance between local authorities as regards short-term credits by making interest earning investments.

(f) The credit potential of a municipal credit bank can be strengthened very much if all payments of the senior governments to the local authority (grants, loan payments, municipal share in state taxes, etc.) are accomplished by payments into the account which local authorities have with the bank and if all, or most of them, left the money deposited there until such time as actual payments are required.

(g) Such a policy would strengthen the short-term credit position of local governments, strengthen the financial capacity of the credit bank and make for a flexible and well organized transfer of payments.

The experience of European countries having municipal credit banks indicates that the specialization of a single institution, insofar as the borrowing and particularly the long-term loan requirements of



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The experience of European countries having municipal credit banks indicates that the specialisation of a single institution, insofar as the borrowing and particularly the long-term loan requirements of



municipal governments are concerned, accrues to the benefit of local authorities and leads to a more powerful position on the capital market in several respects:

(a) Instead of lending relatively small amounts of money to a variety of local authorities -- whose credit worthiness perhaps has to be examined individually -- investors can lend much larger sums to an institution, the credit worthiness of which can be judged without any special know-how (the know-how is vested in the nature of the institution) about the credit worthiness applicable to the local governments on whose behalf it borrows.

(b) A specialized lending institution is in a much better position to make use of all the opportunities the capital market has to offer than can the individual local authority.

(c) A specialized institution is in a better position also to influence the ruling modalities on the capital market as to the needs and desires of the local authorities.

European municipal credit banks (or institutions) operate in both non-federated and federates states.... Historically, many European countries are federal in character and have three levels of government: National, Provincial (or State) and Municipal. The nature of the



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second level of government (Province, State, etc.) and the degree of decentralization as between the national, province or state, and the municipal governments varies substantially from one country to another.... For instance, in Western Germany there is a relatively high degree of autonomy for the provinces whereas in France there is a low degree for the "departements" which are more or less equivalent to a province.

The following pages provide a general description of some of the national municipal credit institutions in European countries (as well as in some others); and, where no such institution exists, of the sources and methods whereby local governments obtain their credit and capital borrowing requirements.

BELGIUM

The "Credit Communal" of Belgium was founded in 1860.

Prior to that time small municipalities were experiencing great difficulty in obtaining loans for municipal improvements. As a rule, the only source available to them were the private banks and financial institutions and, on occasion, private individuals. Under these circumstances municipal loans were obtained under rather onerous conditions. Only the larger cities were able to issue their own securities and obtain capital funds at reasonable rates.

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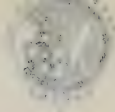
3 Towards the middle of the last century several
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5 The matter was taken in hand by the National Government
6 and the then Minister of Finance summarized the alter-
7 natives as follows:

8 (a) either the National Government would have
9 to intervene and provide loan funds
10 direct to municipalities which would
11 mean some loss of municipal autonomy
12 in as much as the State would be
13 responsible for the municipal loans;
14 or

15 (b) a private institution might be established,
16 the function of which would be to raise
17 loans for municipalities with any profit
18 from its operations accruing to the share-
19 holders of the company.

20 The Minister made it clear that what he had
21 in mind was the creation of an institution or private
22 company which would operate within well established
23 business and financial methods.

24 Out of this background there emerged the idea
25 of creating a company, the shareholders of which would
26 be borrowing local authorities, with the annual profits
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6 Economists such as Bernard Lavergne (a Frenchman)
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9 co-operative society, "The Equitable Pioneers of
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11 The most important problem which the "Credit
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18 distributed each year between the municipalities. It
19 was agreed that the "communes" would be allowed to turn
20 over to the "Credit Communal" their part of the State
21 collected taxes as a guarantee for the loans concluded
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As indicated, the "Credit Communal" is owned by the local authorities, their share capital consisting of part of the consolidated long-term loans which the "Credit Communal" has made to local authorities. These loans are repayable by equal annuities. Originally, 5



per cent of the amount of any consolidated loan represented a subscription to the share capital of the "Credit Communal" by the borrowing municipality. In 1911, the share subscription of the municipalities was reduced to 1/10. Since 1949, when the practice of making consolidated loans was abolished, no further capital subscription has been required of local governments.

The management of the company consists of a General Assembly which is composed of all the municipal shareholders represented either by their mayor, alderman, or a local councillor. A Board of Directors, which is appointed by the General Assembly, administers the company who, in turn, appoints a Supervisory Committee for the general oversight of all the operations of the company, including the loans made to local authorities. The Board of Directors consists of nine members elected for six years. The "Credit Communal" now makes loans to provinces, municipalities, joint boards of local authorities and to some other local organizations, such as public assistance boards. The "Credit Communal" issues the following types of credits:

1. Long-term Credits

(a) Consolidated Loans:

This type of loan credit has now been abandoned. Under it, the loan requirements of several municipalities were grouped and consolidated in one loan issue. The amounts obtained therefrom by each of the several municipalities were repayable in annuities,

per cent of the amount of any consolidated loan represented a subscription to the share capital of the "Credit Communal" by the borrowing municipality. In 1911, the share subscription of the municipalities was reduced to 1/10. Since 1949, when the practice of making consolidated loans was abolished, no further capital subscription has been required of local

Government

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Local Credit

(A) Municipal Loans

This type of loan credit has now been abandoned. Under it, the loan requirements of several municipalities were grouped and consolidated in one loan issue. The amounts obtained therefrom by each of the several municipalities were repayable in installments,



1 including interest and capital.

2 Originally, consolidated loans were
3 granted for up to 60 years.... Subsequently,
4 their duration was reduced to 30 years....
5 (The interest conditions did not change during
6 the duration of the loan).

7 As indicated, the capital required was
8 obtained by long-term issues and distributed
9 between the cities which had requested the
10 loan. The rate fixed for the duration of the
11 loan included all the issue and administration
12 costs. As this kind of capital borrowing was
13 only possible when the "Credit Communal" could
14 issue bonds of at least 30 years, the consolidated
15 loans were abandoned after the second World War
16 when it became impossible to issue bonds in
17 Belgium for more than five years (and in
18 exceptional cases ten years).

19 * (b) Non-consolidated Loans:

20 Since 1948, loans granted by the "Credit
21 Communal" to local authorities are repayable
22 by annual amounts with a variable rate of
23 interest. The rate is fixed twice a year,
24 in June and in December. It is impossible to
25 fix the rate for the whole duration of the
26 loan as the capital funds are now provided by
27 issues of short and medium-term bonds
28 (1, 2, 3, 5 and 10 years) which, at their
29 expiration, have to be replaced by new bonds,
30 the rate of which may differ considerably



including interest and capital.

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granted for up to 50 years.... Subsequently,

their duration was reduced to 30 years....

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the duration of the loan).

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only possible when the "Credit Communal" could

issue bonds of at least 30 years, the consolidated

loans were abandoned after the second World War

when it became impossible to issue bonds in

Belgium for more than five years (and in

exceptional cases ten years).

(C) Medium-term loans

Since 1948, loans granted by the "Credit

Communal" to local authorities are repayable

by annual amounts with a variable rate of

interest. The rate is fixed twice a year,

in June and in December. It is impossible to

fix the rate for the whole duration of the

loan as the capital funds are now provided by

issues of short and medium-term bonds

(1, 2, 3, 5 and 10 years) which, at their

expiration, have to be replaced by new bonds,

the rate of which may differ considerably



from the old ones. It therefore follows that local authorities; when including such loans, do not know at the time when the loan is concluded what the rate will be over its duration....

As a rule, it has always been lower than the public market rates. This is due principally to the co-operative character of the company.

As pointed out, there is no subscription of share capital required from the local authority when non-consolidated loans are concluded.

From 1948 to 1953 the long-term loans of the "Credit Communal" ranged from 20 to 30 years; in 1953, the maximum duration was reduced to 20 years, in as much as at that time the issue of long-term bonds was not readily acceptable in the money market.

2. Medium-term Loans

These loans range from 5 to 10 years (exceptionally for 15 years). The procedure in obtaining the loan is the same as for the non-consolidated long-term credit.

3. Short-term Credits

(a) For extraordinary Expenses:

Loans under this heading would cover the borrowing needs of local authorities for unforeseen expenses of an obligatory character. In most instances, the National Government makes contributions towards such requirements of from 30 per cent to 60 per cent.



As pointed out, there is no substitution to the co-operative character of the company. This is one principally public market rates. As a rule, it has always been lower than local authorities, when financial

authority when non-consolidated loans are concluded. From 1948 to 1953 the long-term loans of the "Credit Communal" ranged from 30 to 30 years; in 1953, the maximum duration was reduced to 20 years, in as much as at that time the term of long-term bonds was not readily acceptable in the money market.

2. Medium-term Loans

These loans range from 5 to 10 years (except- ionally for 15 years). The procedure in obtaining term credit.

3. Short-term Credits

Loans under this heading would cover the borrowing needs of local authorities for unforeseen expenses of an emergency character. In most instances, the National Government makes contributions towards such repayments of from 30 per cent to 60 per cent.



1 However, as these grants are not always
2 paid promptly, the "Credit Communal"
3 discounts the promised amounts normally
4 for a three-year period and, in exceptional
5 cases, for five years.

6 (b) For Current Ordinary Expenses:

7 In Belgium, the State collects certain
8 local taxes which are handed over to the
9 "Credit Communal" to guarantee the annual
10 service costs of municipal loans. There is
11 frequently a delay however in turning the
12 amounts over to the "Credit Communal". As a
13 consequence, municipal governments require
14 interim credit pending the payment of such
15 taxes. For this purpose, the estimated credit
16 balance -- which is not necessary to cover
17 interest and repayment costs of the loans
18 granted to the municipality -- can be
19 discounted to enable the "communes" to pay
20 their current expenses.

21 4. Direct Loans to Other Public Bodies

22 While direct loans to municipalities is the
23 most important function of the "Credit Communal", the
24 institution also grants loans to provinces and other
25 recognized public bodies.

26 In the case of the nine provinces, in as
27 much as all provincial taxes are collected by the State,
28 these taxes, as with the State collected municipal taxes,
29 are paid to the "Credit Communal" where they remain
30 credited to each of the several provincial accounts and,

grants are not always

disburse the proceeds thereof

for a three-year period and, in exceptional

cases, for five years.

(b) For Current Ordinary Expenses

In Belgium, the State collects certain

local taxes which are handed over to the

"Credit Communal" to guarantee the annual

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these taxes, as with the State collected municipal taxes,

are paid to the "Credit Communal" where they remain

credited to each of the several provincial accounts and



1 as with the municipalities, the unused surplus remains
2 as a guarantee of any loan advanced to the provinces
3 by the "Credit Communal".

4 With respect to joint Boards of municipalities
5 and other local organizations, in as much as these
6 bodies do not raise taxes and there is no government
7 fund for them, consequently they do not have any direct
8 income centralized at the "Credit Communal" with which
9 to guarantee their loans. For this reason, such bodies
10 must obtain a municipal or provincial warrant which is
11 tantamount to a guarantee for any loan accorded to
12 them.

13 Financial Assets

14 The financial assets of the "Credit Communal"
15 derive from the following sources:

16 (a) Formerly long-term bonds were issued
17 30 to 60 years and with these proceeds
18 long-term loans were granted. Included
19 in such loan obligations was a 5 per cent
20 capital subscription to the shares of
21 the "Credit Communal". At the end of
22 the second World War the issuance of
23 long-term bonds was abolished, but the
24 municipal share capital still remains
25 an asset of the company.

26 (b) The "Credit Communal" also operates
27 savings departments. Deposits in savings
28 accounts are callable on demand.

29 Another source of the deposit
30 assets of the "Credit Communal" is that



as a guarantee of any loan advanced to the provinces

and

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and other local organizations, in as much as these

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Financial Assets

The financial assets of the "Credit Communal"

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the "Credit Communal". At the end of

the second World War the balance of

long-term bonds was abolished, but the

municipal share capital still remains

on basis of the company.

The "Credit Communal" also operates

savings departments. Deposits in savings

accounts are reliable or insured.

Another source of the capital



1 it acts as the banker for local authorities
2 and other local public bodies. Funds
3 of these bodies remain on deposit for varying
4 times and, as indicated, a good portion
5 of them are earmarked to cover the capital
6 and interest cost repayments of any loan
7 made to these bodies.

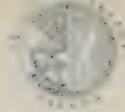
8 (c) In addition to State collected municipal
9 taxes, local authorities also collect
10 direct taxes and other revenues. These
11 local taxes and revenues are deposited
12 with the "Credit Communal".

13 In recent years the "Credit
14 Communal" has been accorded wide banking
15 powers and can, in effect, provide full
16 banking and loan facilities on behalf
17 of local authorities, including savings
18 deposits and the issuance of short-term,
19 medium and long-term loans.

20 The "Credit Communal" works closely with the
21 private banks and, on the infrequent occasions when a
22 larger municipality issues its own bonds, it acts as
23 liaison between the municipality and the bank and
24 as the agent of the municipality.

25
26
27 DENMARK

28 In Denmark the municipalities are not allowed
29 to raise loans to meet current expenditure, but only
30 to finance purchases of property and such new building



and other local public bodies. Funds of these bodies remain on deposit for varying times and, as indicated, a good portion of them are earmarked to cover the capital and interest cost repayments of any loan made to these bodies. In addition to State collected municipal taxes, local authorities also collect direct taxes and other revenues. These local taxes and revenues are deposited with the "Credit Communal".

In recent years the "Credit Communal" has been accorded wide banking powers and can, in effect, provide full banking and loan facilities on behalf of local authorities, including savings deposits and the issuance of medium and long-term loans.

The "Credit Communal" works closely with the private banks and, on the infrequent occasions when a larger municipality issues its own bonds, it acts as liaison between the municipality and the bank and as the agent of the municipality.

CONCLUSION

In Denmark the municipalities are not allowed to raise loans to meet current expenditure, but only to finance purchases of property and such new building



(roads, schools, hospitals, etc.) as cannot be financed from ordinary annual revenue.

The municipalities raise loans "inter alia" from financial institutions (banks, savings banks and insurance companies, from the banks and associations mentioned below and from their own funds, etc. They also have access to loans on favourable terms granted by the State for the promotion of building activity. The loans can be raised by the issue of bonds, quoted on the Exchange, but, generally speaking, this is only resorted to for large loans.

Municipal banking institutions proper are:

- (a) The Local Government Mortgage Credit Association, the business of which is to grant loans to municipalities or under the guarantee of a local government. Each municipality which thus contracts or guarantees loans automatically becoming a member of the association;
- (b) The Urban Municipalities' loan Society which, in some cases, assists the urban municipalities in raising loans and arranges the raising of collective loans.
- (c) In addition, "Den danske Landmandsbank" (the Danish Farmers' Bank) has set up a special department for the grant of loans to municipalities and this is also the case with "Kongeriget Danmarks Hypotekbank" (the second mortgage association for the Kingdom of Denmark), run by the State, a

mentioned below and from their own funds, etc. They also have access to loans on favourable terms granted by the State for the promotion of building activity. The loans can be raised by the issue of bonds, quoted on the Exchange, but, generally speaking, this is only resorted to for large loans.

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(the Danish Farmers' Bank) has set up a special department for the grant of loans

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case with "Kongelige Danske Hypothekbank"

(the Royal Danish Mortgage Bank).

King's Danish Mortgage Bank.



department of which is authorized
to grant loans to municipalities for the
financing of local works and purchases, etc.,
when the Ministry of the Interior is of
the opinion that the work in question
is in the public interest.

GERMAN FEDERAL REPUBLIC

The Ministry of the Interior exercises
supervision over the local authorities and must authorize
either direct or by delegation all borrowings by the
local authorities. The main lenders to the local
authorities are the savings banks and giro (1)
institutions.

The savings banks organization is the main
lender to local authorities in the Federal Republic of
Germany. The local authorities are not, however, obliged
to contract loans solely with the savings banks organ-
ization. They may also obtain loans from insurance
companies, mortgage banks and other banks. The issue of
registered bonds requires special approval by the
appropriate Federal Minister.

The savings bank may grant the local authorities
loans up to a maximum of $12\frac{1}{2}$ per cent of their deposits.
If the capacity of the savings bank is not sufficient

(1) The savings bank organization is a decentralized
private banking system with a three-tier structure. The
bottom tier and, at the same time, the most important
is the savings bank. The second tier is formed by the
central giro institution in each land (State) of the Federal
Republic - Schleswig-Holstein, Hamburg, Bremen, Lower Saxony,
Westphalia, North Rhine, Hesse, Rhineland-Palatinate, Saar,
Baden, Wurttemberg and Bavaria. The top tier consists in the
Deutsche Girozentrale - the chief institution of the system.

7

11

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1



1 to satisfy the loan requirements of a local authority,
2 recourse may be had to the regional giro (savings bank)
3 institution, which is not restricted in this respect.
4 The regional giro institutions refinance themselves
5 in part from the Deutsche Girozentrale-Deutsche
6 Kommunalbank, the central institution of the German
7 savings bank organization. The latter body obtains
8 the necessary funds for long-term loans by selling its
9 communal bonds on the capital market. It is a constant
10 issuer and sells the bonds to all interested parties
11 without forming a syndicate. The floating of an issue
12 requires the authorization of the State, which has
13 never been refused.

14 The Deutsche Girozentrale-Deutsche Kommunalbank
15 is not obliged to use the proceeds of the sale of communal
16 bonds and debt certificates solely for the granting of
17 loans to local authorities. It can advance funds to
18 any borrower provided the loan is guaranteed by an
19 authorized public authority. No security is required
20 for loans to local authorities.

21 The municipal authorities require mainly long-
22 term loans which are redeemed in annuities. Consequently,
23 the terms of the communal bonds are so fixed that loans
24 with terms of 25, 30 to 40 years can be granted.

25 The sum of the loans granted by the Deutsche
26 Girozentrale-Deutsche Kommunalbank is to a certain
27 degree dependent on the sales of communal bonds and debt
28 certificates; in other words, the Bank must restrict
29 its lendings if the capital market is barren.
30

to satisfy the loan requirements of a local authority, recourse may be had to the regional giro (savings bank).

The regional giro institutions finance themselves in part from the Deutsche Girozentrale-Deutsche Kommunalbank, the central institution of the German savings bank organization. The latter body obtains the necessary funds for long-term loans by selling its communal bonds on the capital market. It is a constant issuer and sells the bonds to all interested parties without forming a syndicate. The floating of an issue requires the authorization of the State, which has never been refused.

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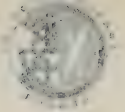
1 NETHERLANDS

2 The Bank for Netherlands Municipalities
3 ("N.V. Bank voor Nederlandscha Gemeenten") in its
4 present form was established in 1922. It was the
5 successor of the "Gemeentelijke Creditetbank", which
6 was established in 1914 on the initiative of the
7 Netherlands Association of Local Authorities.

8 Structure and Management

9 The bank is a limited liability company of
10 which 50 per cent of the share-capital (100 million
11 guilders) is in the hands of the central government
12 with the remaining 50 per cent being in the hands of
13 municipalities, provinces and other public corporations.
14 786 of the 982 Netherlands municipalities and 7 of the
15 11 provinces are shareholders of the bank.

16 Because it holds a large proportion of the
17 shares, the State has the right to appoint two directors
18 of the Netherlands Bank. But these have only an ordinary
19 vote at meetings, both of the Board of Trustees and of its
20 supervisory sub-committee. The number of votes of the
21 central government in the meeting of shareholders is
22 limited to six. (The same number as a local authority
23 holding 28 or more shares). The central government, however
24 must approve the appointment of the bank managers, the issue
25 of loans, any alteration of the statutory regulations
26 and the annual accounts. The fact that some of the
27 transactions of the bank are subject to the approval of
28 the State has not proved in practice that thereby the
29 State's participation hampers in any way an independent
30 banking policy.



Introduction

The bank is a limited liability company of which 50 per cent of the share-capital (100 million guilders) is in the hands of the central government with the remaining 50 per cent being in the hands of municipalities, provinces and other public corporations.

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Structure and Management

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1 Like every limited liability company the bank
2 has a board of directors. The board consists of twelve
3 persons.... One of its members is appointed by the Minister
4 of Home Affairs, one by the Minister of Finance and two
5 by the Association of Netherlands Municipalities. The
6 other eight directors are appointed by the General
7 Meeting of Shareholders. The management is in the hands
8 of one manager and two assistant managers.

9 The participation of the State imparts a very
10 special character to the institution. It is this
11 character which makes the bank a willing partner in
12 helping to draw up and carry out plans to obviate any
13 difficulties which happen to arise in connection with
14 municipal credit. In general, it can be said that, if
15 in times when capital or credit demand exceeds supply a
16 co-ordination is needed between the demands of the State
17 and local authorities, such co-ordination is facilitated
18 by the existence of a bank in which the State has both
19 a shareholding and supervisory interest.

20 Activities

21 The principal functions of the Bank are:

- 22 (a) the granting of long-term loans, short-
23 term loans and current-account credits
24 to local authorities and other public
25 corporations, as well as to quasi public-
26 corporations;
- 27 (b) the settlement of claims and debts between
28 the government and the municipalities
29 are realized through the bank;
- 30 (c) its primary task is to lend all possible

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The participation of the State imparts a very special character to the institution. It is this character which makes the bank a willing partner in helping to draw up and carry out plans to obviate any difficulties which happen to arise in connection with municipal credit. In general, it can be said that, in times when capital or credit demand exceeds supply a co-ordination is needed between the demands of the State and local authorities, such co-ordination is facilitated by the existence of a bank in which the State has both a participating and supervisory interest.

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- (b) the settlement of claims and debts between the government and the municipalities
- (c) its primary task is to lend all possible are realized through the bank;



1 bank assistance to the local authorities.
2 The credits of the Bank are financed by the
3 following means:

- 4 (a) the issue of bond loans;
- 5 (b) the contracting of long-term and short-
6 term private loans with pension funds,
7 insurance companies, saving banks, and
8 others;
- 9 (c) deposits received from the local
10 authorities and other public, as well as
11 quasi public corporations;
- 12 (d) borrowing from the State occurs only
13 in very special cases.

14 At the end of 1961 the parliament of the
15 Netherlands had before it a Bill for the purpose of
16 regulating the financing of the capital expenditures of
17 local authorities. The purposes of the Bill were threefold:

- 18 (1) To assure a safe financing of the capital
19 expenditures of local authorities, particularly
20 the smaller municipalities.
- 21 (2) To assure that the aggregate capital
22 borrowing of local authorities on the capital
23 market would be such as to maintain a
24 desirable level of borrowing having regard
25 to the cyclical fluctuations in the national
26 economy.
- 27 (3) To prevent a possible over-straining of
28 the capital market in so far as the long-
29 term capital requirements of local
30 governments are concerned.



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- (1) To assure a safe financing of the capital expenditures of local authorities, particularly the smaller municipalities.

- (2) To assure that the aggregate capital borrowing of local authorities on the capital market would be such as to maintain a desirable level of borrowing having regard to the cyclical fluctuations in the national

- (3) To prevent a possible over-accumulation of the capital market in so far as the long-term capital requirements of local governments are concerned.

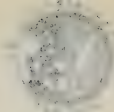


Nethercut & Young

- A.106 -

Toronto, Ontario

The following table indicates the growth
in the operations of the Netherlands Bank since its
re-organization in 1922.



10

10

THE NETHERLANDS BANK

in the operations of the Netherlands Bank since its

formation in 1826

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Nethercut & Young
Toronto, Ontario

ALL FIGURES SINCE 1972
(IN MILLIONS OF GUILDERS)

YEAR	SHARE CAPITAL IN SHARES (1)	CAPITAL IN SHARES (1)	LONG-TERM LOANS EX- TENDED (1)	DEFERRED ON CURRENT AS- SOCIATION (1)	CURRENT- ACCOUNT CREDITORS AND TIME- DEPOSITS (1)	LONG-TERM LOANS RAISED (1)	PAYMENTS BY THE GOVERNMENT TO THE M- UNICIPAL- ITIES	PAYMENTS TO THE GOVERNMENT BY THE MUNICIPAL- ITIES	DEFERRED ON CURRENT ACCOUNTS (2)
1922	2,0	4,1	0,5	3,4	2,6	-	-	49	
1930	4,7	37,6	11,7	11,2	31,0	316,5	72,2	557	
1940	7,2	35,0	18,5	9,7	28,4	437,7	72,3	772	
1950	9,8	200,1	76,8	53,8	100,7	1,019,3	122,2	1,035	
1960	100,1 (3)	6,124,4	92,1	211,8	6,039,4	2,809,6	96,7	1,334	
1961	130,9 (4)	6,674,6 (5)	120,8	232,5	6,465,6	3,295,8	324,5	1,329 (6)	

1) END OF YEAR FIGURES.

2) NUMBER OF CORPORATIONS USING THE SERVICE OF THE BANK TO RECEIVE FUNDS OR TO MAKE PAYMENTS.

3) SHARE CAPITAL F. 90,217,000.--, OF WHICH UNCALLED F. 74,764,400.--.

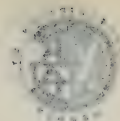
4) SHARE CAPITAL F. 100,000,000.--, OF WHICH UNCALLED F. 68,549,000.--.

5) LOANS OUTSTANDING AT 31st DECEMBER, 1961, REPRESENTED CLAIMS MADE UP AS FOLLOWS:

	NUMBER OF LOANS	AMOUNT
PROVINCES	11	F. 25,918,480.--
MUNICIPALITIES	24,221	" 6,363,980,443,47
POLDER BOARDS (A)	66	" 3,937,752,76
PUBLIC UTILITIES	138	" 73,503,891,72
SCHOOLS	525	" 94,167,167,08
BUILDING SOCIETIES	92	" 49,900,709,55
OTHERS	131	" 43,291,550,75
	25,184	F. 6,674,550,003,31

6) INCLUDING 969 OF THE 992 NETHERLANDS MUNICIPALITIES; THE NUMBER OF MUNICIPALITIES DECREASES BECAUSE THERE IS A TENDENCY TO FORM BIGGER MUNICIPALITIES OUT OF LITTLE ONES.

(A) WATER CONSERVATION DISTRICTS.



1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2029, 2030, 2031, 2032, 2033, 2034, 2035, 2036, 2037, 2038, 2039, 2040, 2041, 2042, 2043, 2044, 2045, 2046, 2047, 2048, 2049, 2050, 2051, 2052, 2053, 2054, 2055, 2056, 2057, 2058, 2059, 2060, 2061, 2062, 2063, 2064, 2065, 2066, 2067, 2068, 2069, 2070, 2071, 2072, 2073, 2074, 2075, 2076, 2077, 2078, 2079, 2080, 2081, 2082, 2083, 2084, 2085, 2086, 2087, 2088, 2089, 2090, 2091, 2092, 2093, 2094, 2095, 2096, 2097, 2098, 2099, 2100, 2101, 2102, 2103, 2104, 2105, 2106, 2107, 2108, 2109, 2110, 2111, 2112, 2113, 2114, 2115, 2116, 2117, 2118, 2119, 2120, 2121, 2122, 2123, 2124, 2125, 2126, 2127, 2128, 2129, 2130, 2131, 2132, 2133, 2134, 2135, 2136, 2137, 2138, 2139, 2140, 2141, 2142, 2143, 2144, 2145, 2146, 2147, 2148, 2149, 2150, 2151, 2152, 2153, 2154, 2155, 2156, 2157, 2158, 2159, 2160, 2161, 2162, 2163, 2164, 2165, 2166, 2167, 2168, 2169, 2170, 2171, 2172, 2173, 2174, 2175, 2176, 2177, 2178, 2179, 2180, 2181, 2182, 2183, 2184, 2185, 2186, 2187, 2188, 2189, 2190, 2191, 2192, 2193, 2194, 2195, 2196, 2197, 2198, 2199, 2200, 2201, 2202, 2203, 2204, 2205, 2206, 2207, 2208, 2209, 2210, 2211, 2212, 2213, 2214, 2215, 2216, 2217, 2218, 2219, 2220, 2221, 2222, 2223, 2224, 2225, 2226, 2227, 2228, 2229, 2230, 2231, 2232, 2233, 2234, 2235, 2236, 2237, 2238, 2239, 2240, 2241, 2242, 2243, 2244, 2245, 2246, 2247, 2248, 2249, 2250, 2251, 2252, 2253, 2254, 2255, 2256, 2257, 2258, 2259, 2260, 2261, 2262, 2263, 2264, 2265, 2266, 2267, 2268, 2269, 2270, 2271, 2272, 2273, 2274, 2275, 2276, 2277, 2278, 2279, 2280, 2281, 2282, 2283, 2284, 2285, 2286, 2287, 2288, 2289, 2290, 2291, 2292, 2293, 2294, 2295, 2296, 2297, 2298, 2299, 2300, 2301, 2302, 2303, 2304, 2305, 2306, 2307, 2308, 2309, 2310, 2311, 2312, 2313, 2314, 2315, 2316, 2317, 2318, 2319, 2320, 2321, 2322, 2323, 2324, 2325, 2326, 2327, 2328, 2329, 2330, 2331, 2332, 2333, 2334, 2335, 2336, 2337, 2338, 2339, 2340, 2341, 2342, 2343, 2344, 2345, 2346, 2347, 2348, 2349, 2350, 2351, 2352, 2353, 2354, 2355, 2356, 2357, 2358, 2359, 2360, 2361, 2362, 2363, 2364, 2365, 2366, 2367, 2368, 2369, 2370, 2371, 2372, 2373, 2374, 2375, 2376, 2377, 2378, 2379, 2380, 2381, 2382, 2383, 2384, 2385, 2386, 2387, 2388, 2389, 2390, 2391, 2392, 2393, 2394, 2395, 2396, 2397, 2398, 2399, 2400, 2401, 2402, 2403, 2404, 2405, 2406, 2407, 2408, 2409, 2410, 2411, 2412, 2413, 2414, 2415, 2416, 2417, 2418, 2419, 2420, 2421, 2422, 2423, 2424, 2425, 2426, 2427, 2428, 2429, 2430, 2431, 2432, 2433, 2434, 2435, 2436, 2437, 2438, 2439, 2440, 2441, 2442, 2443, 2444, 2445, 2446, 2447, 2448, 2449, 2450, 2451, 2452, 2453, 2454, 2455, 2456, 2457, 2458, 2459, 2460, 2461, 2462, 2463, 2464, 2465, 2466, 2467, 2468, 2469, 2470, 2471, 2472, 2473, 2474, 2475, 2476, 2477, 2478, 2479, 2480, 2481, 2482, 2483, 2484, 2485, 2486, 2487, 2488, 2489, 2490, 2491, 2492, 2493, 2494, 2495, 2496, 2497, 2498, 2499, 2500, 2501, 2502, 2503, 2504, 2505, 2506, 2507, 2508, 2509, 2510, 2511, 2512, 2513, 2514, 2515, 2516, 2517, 2518, 2519, 2520, 2521, 2522, 2523, 2524, 2525, 2526, 2527, 2528, 2529, 2530, 2531, 2532, 2533, 2534, 2535, 2536, 2537, 2538, 2539, 2540, 2541, 2542, 2543, 2544, 2545, 2546, 2547, 2548, 2549, 2550, 2551, 2552, 2553, 2554, 2555, 2556, 2557, 2558, 2559, 2560, 2561, 2562, 2563, 2564, 2565, 2566, 2567, 2568, 2569, 2570, 2571, 2572, 2573, 2574, 2575, 2576, 2577, 2578, 2579, 2580, 2581, 2582, 2583, 2584, 2585, 2586, 2587, 2588, 2589, 2590, 2591, 2592, 2593, 2594, 2595, 2596, 2597, 2598, 2599, 2600, 2601, 2602, 2603, 2604, 2605, 2606, 2607, 2608, 2609, 2610, 2611, 2612, 2613, 2614, 2615, 2616, 2617, 2618, 2619, 2620, 2621, 2622, 2623, 2624, 2625, 2626, 2627, 2628, 2629, 2630, 2631, 2632, 2633, 2634, 2635, 2636, 2637, 2638, 2639, 2640, 2641, 2642, 2643, 2644, 2645, 2646, 2647, 2648, 2649, 2650, 2651, 2652, 2653, 2654, 2655, 2656, 2657, 2658, 2659, 2660, 2661, 2662, 2663, 2664, 2665, 2666, 2667, 2668, 2669, 2670, 2671, 2672, 2673, 2674, 2675, 26



1 SPAIN

2 The over-all picture with respect to municipal
3 borrowing in Spain in 1925 was somewhat as follows:

4 (a) The Stock Exchanges of Madrid and
5 Barcelona absorbed the borrowing require-
6 ments of the two larger cities (70 per
7 cent of the total municipal debt); and,
8 to a lesser extent, certain of the
9 provincial capital cities;

10 (b) The Savings Funds institutions in the
11 provinces provided the credit require-
12 ments of some municipalities, such
13 loans being secured by the bonds of the
14 provinces;

15 (c) Only 5 per cent of the aggregate of
16 Spanish municipalities had contracted
17 loan obligations. It was only under
18 exceptional circumstances that they
19 could borrow funds for capital works
20 or other purposes.

21 Under these circumstances the credit and
22 borrowing needs of municipal governments were wholly
23 inadequate. This fact was recognized by the National
24 Government and, in a municipal statute passed in 1924,
25 authorization was given for the setting up of a National
26 Municipal Lending Institution. For the purpose it was
27 decided to establish a Municipal or Communal Credit
28 Bank which would have the direct support of the capital
29 market, to which end it was recognized that the bank
30 would have to be provided with the means necessary to

The over-all picture with respect to municipal

borrowing in Spain in 1925 was somewhat as follows:

(a) The Stock Exchanges of Madrid and

Barcelona absorbed the borrowing reduction-

ments of the two larger cities (70 per

cent of the total municipal debt); and,

to a lesser extent, certain of the

provincial capital cities;

(b) The Savings Funds institutions in the

provinces provided the credit reduction-

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Bank which would have the direct support of the capital

market, to which end it was recognized that the bank

would have to be provided with the means necessary to



1 carry on its functions and to establish the confidence
2 of the market.

3 In general, the premises upon which the bank
4 was founded and its modus operandi can be summarized
5 as follows: The difficulty of having the market know,
6 evaluate and accept the guarantee of each and every
7 municipality that required credit would be overcome
8 if there was an official institution that would be worthy
9 of the confidence of the market and that could perform
10 this function and which, through its consolidated
11 strength, could obtain at minimum interest costs the
12 borrowing requirements of local governments.

13 In effect, therefore, the local Credit Bank
14 of Spain serves as a liaison and as an agent between
15 the capital market and the municipalities. Thus, the
16 possibilities of obtaining credit are common to all of
17 them and not limited only to the larger cities...
18 In the market there is no debtor municipality, but only
19 the local Credit Bank which represents the aggregate
20 of the resources of all the municipalities, all of
21 which are pledged to secure the obligations contracted,
22 with the Credit Bank being responsible for the servicing
23 of the aggregate debt obligations... The bank maintains
24 a continuous re-evaluation of the borrowing potential
25 of every municipality. Within that potential the bank
26 undertakes to obtain from the capital market the borrowing
27 requirements of the municipality.

28 The bank was established on July 22, 1925.
29 It is an official government bank and operates as a stock
30 company with both private and public shareholders. Its

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company with both private and public shareholders. Its



1 initial capital was Ptas 25 million. Its present capital
2 consists of 100,000 shares of a value of Ptas 500 each,
3 of which 40 per cent is subscribed by municipal
4 governments.... The Board of Administration of the bank
5 is presided over by a Governor who is appointed by the
6 National Government and he, in turn, appoints two
7 Deputy Governors.... Elected representatives of both
8 the private shareholders and the municipal shareholders
9 constitute the Board of Administration with the provision
10 being made whereby the municipal shareholders exercise
11 certain powers alone.

12 The bank has the power of issuing local credit
13 bonds (or share certificates) to cover the amounts of the
14 loans contracted by the borrowing municipalities. These
15 bonds or share certificates known as "Cedulas" are an
16 instrument devised by the bank to facilitate and direct
17 local capital into municipal undertakings. No other
18 entity may issue "Cedules" so that this form of invest-
19 ment is strictly limited to municipal credit require-
20 ments.... In possible cases of default by a municipality,
21 the bank is authorized to establish executory proceedings
22 on the municipality through means of compulsory collection
23 of any amounts in default. There have been a few
24 threatened defaults (coinciding with the financial crisis
25 of 1930) but the executory proceedings were immediately
26 put into effect so that in no single case did the
27 threatened default develop. Not even the contingencies
28 of the Civil War result in a municipal default, nor have
29 any developed since then.

30 The local credit bonds (Cedulas) issued by

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1 the bank immediately attracted the attention of the
2 market and were broadly accepted not only by the market,
3 but by the private banks and other sources of private
4 investment.

5 The number of loan transactions entered into
6 between the period 1925 to 1960 totalled 3,526, involving
7 more than Ptas 9,200 million, loaned to more than 2,000
8 local governments. The rural municipalities, small towns
9 and large cities have all utilized the facilities of the
10 bank without any discrimination whatsoever. The smallest
11 loan granted was to the town of Castronuevo in the amount
12 of Ptas 27,000 for a public services building. The
13 largest loan was in the amount of Ptas 550 million to
14 the City of Barcelona for the improvement of urban
15 transportation.

16 Since its inception only five municipal
17 governments, because of special circumstances, have
18 placed their securities directly on the market with the
19 co-operation of the local Credit Bank which provides
20 municipal governments with full technical facilities
21 and financial planning of their borrowing requirements.

22 The bank commenced its operations by giving
23 preference to municipal improvements of a self-liquidating
24 nature, even though it did not exclude other types
25 of municipal undertakings that required urgent attention.
26 Its initial effort, however, was to fill the void created
27 by the inability of municipal governments to establish
28 acceptable credit in the money market and, particularly,
29 for the smaller municipalities who, as indicated, were
30 finding it difficult to obtain their borrowing



1 requirements from any source.

2 Within the framework of this policy, the bank's
3 early operations were, to a large extent, confined
4 to providing the capital costs of water and sewerage
5 systems, markets, abattoirs, schools and road
6 construction.... Since 1940, loans have been extended
7 to include such items as housing, urban transportation
8 and re-development.... Of the total loans granted in
9 1960 (Ftas 2,042 million) 50 per cent represented loans
10 for water supply and sewer construction; 30 per cent
11 represented loans for urban transportation; 14 per cent
12 for schools, welfare and related purposes; 6 per cent
13 for urban re-development; 3 per cent for local roads
14 and highways and 3 per cent for municipal buildings.

15 From the inception of the bank the local
16 credit "Cedula" has been an important instrument in
17 providing the borrowing requirements of municipal
18 governments. The first issue of "Cedulas" took place
19 in 1925. Originally they bore an interest of 6 per cent
20 per annum. In 1942, all "Cedulas" in circulation
21 were converted into an issue bearing a rate of 4 per cent
22 per annum. This rate is still in force. While the
23 interest rate of the new issue was lowered, a fully
24 compensating measure was introduced whereby "Cedulas"
25 were exempted from all taxation (national, provincial
26 or municipal). There have been ten subsequent issues
27 of "Cedulas", all tax exempt, bearing a 4 per cent
28 interest rate.

29 Another attractive feature of the "Cedula"
30 is the provision whereby there are annual draws or prizes



1 for "Cedula" owners, somewhat in the same manner as the
2 "bonus bonds" of the United Kingdom. The prizes are of
3 three kinds:

- 4 (a) fixed prizes for each issue -- one of
5 Ptas 250,000, one of Ptas 100,000 and several
6 of twice the nominal value of the "Cedula";
7 (b) variable prizes for all issues, established
8 by sharing in the profits of the bank.
9 In the year 1960, this resulted in the
10 distribution of Ptas 3,707,000 among
11 719 "Cedulas";
12 (c) variable prizes for all issues by
13 distribution of a fund set up by a special
14 commission of 1 per cent on all loans
15 since December 1956.

16 The bank has become a firmly established
17 financial institution in Spain with the total amount
18 of loans authorized in 1960 amounting to Ptas 2,042
19 million... The policy of its earlier years whereby
20 loans were restricted, in the main, to self-liquidating
21 projects, has given way to a much broader policy. The
22 criteria now is whether a project has a social usefulness.
23 If it has, and providing there is some reason to believe
24 the municipality can fulfill its debt obligation, the
25 bank will undertake to arrange that the municipality
26 is able to discharge its loan obligation.



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the municipality can fulfill its debt obligation, the

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is able to discharge its loan obligation.



1 UNITED KINGDOM

2 Municipal authorities in the United Kingdom
3 are required by law to raise sufficient revenue to
4 discharge their current expenditures so that borrowing
5 is generally confined to specific capital purposes.

6 Long-term loans may be raised by local
7 authorities for financing capital expenditures, e.g. the
8 acquisition of land, the erection of buildings and other
9 permanent work, and similar purposes. With very few
10 exceptions, long-term loans are subject to the consent
11 of the Minister of Housing and local Government who is
12 guided by the recommendations of the government
13 department responsible for the service for which the
14 capital is required. Borrowing powers for specific
15 schemes are sometimes included among the provisions
16 of local Acts, while the London County Council goes
17 each year to Parliament for sanction to raise the money it
18 needs for capital expenditure.

19 Local authorities raise loans by issuing stock
20 upon the Stock Exchange, by internal borrowing (e.g.
21 from superannuation funds), by private mortgage (e.g.
22 from savings banks), or on mortgage from the Public Works
23 Loan Board which is financed by the Exchequer. In some
24 circumstances, one local authority may borrow from
25 another, e.g. a parish council from a county council.
26 Money may also be borrowed temporarily, e.g. by bank
27 overdraft pending the receipt of revenues or the
28 raising of a loan.

29 Loans must be repaid within a period of years
30 (fixed usually by the department which recommends the loan)

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1 which varies according to the anticipated life of the
2 capital assets for which the loan is raised, and is
3 never longer than eighty years. Municipal authorities
4 may borrow from any source provided the security given
5 is of an authorized nature; for example, loans on
6 mortgage. The mortgages referred to are given on
7 security of the rates and revenues of the borrowing
8 municipality, but alternative forms of loans are also
9 available; for example, local bonds and bills, housing
10 bonds, bank overdraft.

11 There is no special local government bank
12 operating on behalf of local authorities in the United
13 Kingdom, although the Public Works Loan Board has some
14 of the characteristics of a national municipal loan
15 institution. It is the only department of the Government
16 of the United Kingdom which is entirely concerned with
17 the financing requirements of local government. The
18 Board is a statutory body for which the Chancellor of
19 the Exchequer has parliamentary responsibility and local
20 governments may borrow from it at rates fixed by the
21 Treasury.

22 All loans from the Public Works Loan Board
23 are repaid by instalments; other loans may be repaid
24 either by instalments or by means of a sinking fund....
25 The rates of interest for loans from the Public
26 Works Loan Board are fixed from time to time by the
27 Treasury to correspond broadly with current market
28 rates.



1 IRELAND

2 All local authorities in Ireland have power
3 to raise loans by issue of stock. The issue and terms
4 require sanction from the Minister of Finance. In
5 practice, only two local authorities raise loans by
6 this method, viz. the Corporation of Dublin and the
7 Corporation of Cork.

8 There is no special local government bank in
9 Ireland, although there is a local loans Fund which is
10 a fund financed by the Central Government for the
11 purpose of facilitating municipal capital borrowing.
12 Most local authorities contract loans through this
13 government fund. The usual period of such loans is
14 thirty-five or fifty years and the interest rate generally
15 is lower than the going market rate for capital funds.
16 In 1960, it was $3\frac{1}{4}$ per cent for "municipal" loans
17 and $2\frac{1}{2}$ per cent for "housing" loans.

18 Short-term borrowing is usually done with
19 the ordinary commercial banks on such occasions when
20 credit facilities are required to tide a local authority
21 over a period of temporary difficulty pending receipt
22 of income from the rates.

23
24
25 ITALY

26 Municipal authorities in Italy may contract
27 loans for the specific purposes laid down by municipal
28 law, such as public works of an obligatory nature,
29 working-class housing, payment of outstanding debts,
30 and to balance deficits in the municipal budget.

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There is no special local government bank in Ireland, although there is a local loans fund which is a fund financed by the Central Government for the purpose of facilitating municipal capital borrowing. Most local authorities contract loans through this government fund. The usual period of such loans is thirty-five or fifty years and the interest rate generally is lower than the going market rate for capital funds. In 1960, it was $3\frac{1}{2}$ per cent for "municipal" loans and $2\frac{1}{2}$ per cent for "housing" loans.

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ITALY

Municipal authorities in Italy may contract loans for the specific purpose laid down by municipal law, such as public works of an obligatory nature, working-class housing, payment of outstanding debts, and to balance deficits in the municipal budget.



1 These loans may be contracted with special
2 loan establishments such as the "Deposit and Loan Bank",
3 the savings banks and other credit and loan institutions.
4 Municipal loans are covered by assignments on municipal
5 sur-taxes and on local taxes. These loans are generally
6 repaid by means of uniform annual instalments comprising
7 the capital and the interest. Municipalities are forbidden
8 to contract loans abroad.

9 To meet their current credit requirements
10 municipalities may contract loans in the form of drafts
11 for a sum which must not be more than $1/8$ of the
12 ordinary budget receipts.

13 Municipalities may also issue stocks. This
14 method, however, is only used by the larger municipalities
15 and the stocks are quoted on the Stock Exchange.

16 There is no special bank for local government
17 credit requirements although the "Deposit and Loan Bank",
18 which combines all the deposits of post office savings
19 banks, judicial deposits, etc., and which uses these
20 assets for loans to public bodies, such as the
21 municipalities and the provinces, by its nature, performs
22 much of the purposes normally undertaken by national
23 municipal loaning institutions.

24
25
26 FRANCE

27 Municipal governments in France are authorized
28 to contract loans for municipal public works undertakings.
29 There is no special national lending institution so that
30 municipalities borrow from whatever source they can

loan establishments such as the "Deposit and Loan Bank",
the savings banks and other credit and loan institutions.
Municipal loans are covered by assignments on municipal
taxes and on local taxes. These loans are generally
repaid by means of uniform annual instalments comprising
the capital and the interest. Municipalities are forbidden
to contract loans abroad.

To meet their current credit requirements
municipalities may contract loans in the form of drafts
for a sum which must not be more than $\frac{1}{3}$ of the
Municipalities may also issue stocks. This

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and the stocks are quoted on the Stock Exchange.

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credit requirements although the "Deposit and Loan Bank",
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to contract loans for municipal public works undertakings.
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municipalities borrow from whatever source they can



1 obtain funds from. The only restriction is in the case
2 of loans which are intended to meet the municipal cost
3 of works that have been subsidized in part by the
4 national government.

5 For such loans the municipalities are obliged
6 to have recourse to "local" loan sources. While local
7 loans are originally what the word implies, namely
8 loans from "local" sources, in practice a local loan
9 now has come to mean a loan from any source other than
10 certain public State Banks whose funds are specifically
11 reserved for specified purposes and do not include
12 municipal purposes.

13 The larger cities such as Paris and Marseilles
14 issue their own securities which are quoted on the Stock
15 Exchange. Other municipalities can avail themselves
16 of a special government administrative agency known as
17 the "Deposit and Consignment Office". This agency
18 of the National government operates what is known as
19 "The Fund for Administering Loans of Local Authorities".
20 It does not act as an intermediary for the municipalities
21 in obtaining loans but only as the custodian and
22 administrator of such loans after they have been negotiated
23 by the borrowing municipality. While it in no way guarantees
24 a municipal loan, the fact that the loan is under its
25 administration gives to the loan an added receptivity
26 in the market. The supervision of such loans is under
27 the control of a committee comprised of representatives
28 of the municipalities, the departments and the National
29 Federation of Local Authorities.

30 The assets represented by the municipal loans

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Federation of Local Authorities.

of the municipalities, the departments and the National
the control of a committee comprised of representatives
in the market. The supervision of such loans is under
administration gives to the loan an added receptivity
a municipal loan, the fact that the loan is under its

by the borrowing municipality. While it is no way guaran-
administrator of such loans after they have been negotiated
in obtaining loans but only as the custodian and

It does not act as an intermediary for the municipalities
"The Fund for Administering Loans of Local Authorities".
of the National Government operates what is known as
the "Deposit and Consignment Office". This agency

of a special government administrative agency known as
Exchange. Other municipalities can avail themselves
issue their own securities which are quoted on the Stock
The larger cities such as Paris and Marseilles

municipal purposes.

reserved for specified purposes and do not include
certain public State Banks whose funds are specifically
now has come to mean a loan from any source other than
loans from "local" sources, in practice a local loan
loans are originally what the word implies, namely

to have recourse to "local" loan sources. While local
For such loans the municipalities are obliged

of works that have been subsidised in part by the

of loans which are intended to meet the municipal cost

obtain funds from. The only restriction is in the case



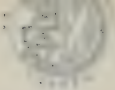
1 being administered by the Deposit and Consignment office
2 are listed and quoted on the Stock Exchange under the
3 name of the Municipal Administration Fund. This provides
4 a market for such assets which would not be possible
5 for each individual loan represented by the assets
6 owing to the smallness of many of such loans and the fact
7 that a large part of the borrowings are those of relatively
8 small communities.

11 TURKEY

12 Local authorities in Turkey may raise loans
13 with the approval of the state supervisory authority.
14 Such loans must be for capital expenditures only.
15 Municipal loans to cover current expenditure are
16 forbidden.

17 In most instances, the municipalities obtain
18 their borrowing requirements from the Departmental Bank.
19 This is a public credit institution, founded in 1945,
20 on the basis of intermunicipal co-operation, to replace
21 the Municipal Bank founded in 1930.

22 The Departmental Bank has a capital of 200,000,000
23 Turkish pounds, the shareholders being the departments
24 (or provinces), urban municipalities and rural villages.
25 The departments and municipalities are required by law
26 to remit to the bank annually one-twentieth of their
27 ordinary annual revenue as their share in the bank's
28 capital until this has been fully paid up. The villages,
29 though shareholders in the bank, make no payment, their
30 contribution being represented by three per cent of the



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1 revenue of the rates on built-up property which is
2 collected and paid into the bank by the departments
3 and by thirty per cent of the net annual profit made by
4 the bank.

5 The purpose of the bank is to lend to local
6 authorities -- at a reduced rate and on advantageous
7 terms -- the funds necessary for municipal equipment
8 and for carrying out programmes of urban improvement
9 and municipal public works.

10 Local authorities can borrow from other
11 sources besides the Departmental Bank. However, they
12 cannot issue stocks and shares. In 1953 in order to
13 facilitate urban re-development and municipal improvements
14 in the larger cities and towns the government authorized
15 such municipalities to issue debenture bonds redeemable
16 in twenty years. Such bonds must be approved by the
17 government and the borrowing arranged with the Banque
18 de Credit Foncier de Turquie. The bonds are backed
19 by a government guarantee.

21
22 NORWAY

23 The National Government of Norway have established
24 what is known as a "Kommunalbanken". The Kommunalbanken
25 is, as its name implies, a municipal bank. It is the
26 principal source of municipal capital funds in Norway
27 although municipalities may also contract loans from
28 private persons, banks or directly from the state or
29 other financial bodies. They may also raise loans by the
30 issue of stocks on the Stock Exchange.

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1 SWEDEN

2 Municipal governments in Sweden may contract
3 loans, in principle, from anyone including loans by
4 the issue of stock although this is not a frequent
5 practice. There is no national municipal lending
6 institution in Sweden.

7 The capital, Stockholm, is the only municipality
8 in Sweden which borrows money by issuing bonds.
9

10
11 FINLAND

12 Local authorities in Finland may contract
13 loans from any source... Loans with an amortization
14 period exceeding five years, however, require the
15 approval of a central government authority. The approving
16 authority for rural communities is the County Administrator
17 and for cities and towns it is the Minister of the
18 Interior.

19 There is no national municipal lending institution
20 in Finland.
21

22
23 AUSTRIA

24 Local authorities in Austria are permitted
25 to raise loans, which they do from private individuals,
26 banks, the State and, more particularly, from lending
27 institutions of various kinds. Loans are secured by
28 mortgaging the income of the municipality.

29 Loans can also be raised by the issue of
30 debentures quoted on the Stock Exchange.



CHARTER

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 mortgaging the income of the municipality.
 Loans can also be raised by the issue of
 debentures quoted on the Stock Exchange.



Nethercut & Young

- A. 122 -

Toronto, Ontario

1 There is no special local government bank
2 operating on behalf of local authorities in Austria.



There is no special local government body
operating on behalf of local authorities in London.

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APPENDIX "B"

MUNICIPAL FINANCIAL STATISTICS (1933-1959)

1. Net General Revenues by Major
Tax and Other Revenue Sources.
 2. Total Net General Revenue by
Province.
 3. Net General Expenditures by Major
Function.
 4. Total Net General Expenditure
by Province.
 5. Direct and Indirect Debt.
-

MINISTRIAL FINANCIAL STATEMENTS (1911-1912)

1. Net General Revenues by Major
Tax and Other Revenue Sources.

2. Total Net General Revenue by
Province.

3. Net General Expenditures by Major
Function.

4. Total Net General Expenditures
by Province.

5. Direct and Indirect Debt.

MUNICIPAL GOVERNMENT - NET GENERAL REVENUE BY MAJOR TAX AND OTHER REVENUE SOURCES
SELECTED YEARS 1931-1932 - 1952
(MILLIONS OF DOLLARS)

YEARS	A. TAXATION				B. OTHER REVENUES				C. PROVINCIAL PAYMENTS			
	CR.	VI.	OTHER	TOTAL	PERMITS	GOVERN-	OTHER	SER.	CON. SER.	INDICES, ETC.	REVENUE	TOTAL
	CR.	VI.	OTHER	TOTAL	PERMITS	GOVERN-	OTHER	(A+B)	(C)	(D)	(A+B+C)	(A+B+C+D)
	CR.	VI.	OTHER	TOTAL	PERMITS	GOVERN-	OTHER	(A+B)	(C)	(D)	(A+B+C)	(A+B+C+D)
1931	74	3	1,193	8	1,281	25	45	103	173	91	1,454	1,545
1932	58	4	1,000	10	1,132	24	45	93	162	85	1,294	1,379
1937	53	3	974	7	1,037	22	37	81	143	74	1,180	1,254
1938	51	3	880	10	924	20	35	78	133	52	1,057	1,109
1939	43	3	764	18	828	19	32	54	115	45	943	988
1940	37	2	709	15	763	17	36	50	113	42	876	918
1941	34	2	651	13	700	16	33	52	101	30	811	841
1942	30	2	590	14	646	14	30	47	91	29	737	755
1943	27	2	531	10	570	13	29	48	90	24	650	684
1944	25	2	400	53	478	14	24	44	82	15	560	575
1945	16	2	369	48	433	13	24	42	79	9	512	521
1946	15	2	337	41	393	12	20	30	62	8	463	471
1947	13	2	304	34	351	10	19	33	62	6	413	419
1948	12	2	275	29	316	9	16	34	59	7	375	382
1949	9	1	278	4	292	6	17	30	53	6	345	351
1950	8	1	260	25	293	8	14	26	48	7	341	348
1951	4	7	251	24	286	8	12	25	45	3	331	334
1952	3	5	243	23	275	7	10	25	42	5	317	322
1953	3	4	237	21	266	6	9	23	38	3	304	307
1954	4	4	231	18	253	5	6	30	41	-	291	294

SOURCE: D.S.S. (SPECIAL COMPILATION)



- A. 125 -

MUNICIPAL GOVERNMENTS - TOTAL NET GENERAL REVENUE BY PROVINCE
(INCLUDING UNCONSTITUTIONAL TRANSFERS FROM PROVINCIAL GOVERNMENTS)
SELECTED YEARS: 1933 - 1959
(MILLIONS OF DOLLARS)

YEAR	NEW FOUNDLAND	PRINCE EDWARD ISLAND	NOVA SCOTIA	NEW BRUNSWICK	QUEBEC	ONTARIO	MANITOBA	SASKATCHEWAN	ALBERTA	BRITISH COLUMBIA	TOTAL
1933		3	36	36	363	628	73	88	138	151	1,545
1934	5	3	36	33	326	562	68	63	127	136	1,379
1935	4	2	34	30	286	519	64	76	112	118	1,251
1936	4	2	30	26	267	483	59	71	97	100	1,103
1937	3	2	27	24	239	400	53	66	87	87	988
1938	3	2	25	22	226	360	49	62	85	84	918
1939	2	2	24	21	217	319	46	57	76	77	841
1940	2	2	23	19	193	293	45	51	68	70	766
1941	2	1	20	16	162	254	42	46	58	63	684
1942											575
1943											521
1944											471
1945											419
1946											382
1947											351
1948											348
1949											334
1950											322
1951											307
1952											294

BECAUSE NOT AVAILABLE

SOURCE: C.B.S. (SPECIAL COMPILATION).

A. 125 -

MUNICIPAL GOVERNMENTS NET GENERAL EXPENDITURE BY MAJOR FUNCTION

SELECTED YEARS: 1933 - 1959
(MILLIONS OF DOLLARS)

YEAR	HEALTH	SOCIAL WELFARE	EDUCATION	TRANSPORT & COMMUN.	DEBT CHARGES	GENERAL GOV'T	PROTECTION PERSONS & PROP.	OTHER	TOTAL
1939	66	36	656	346	116	129	212	264	1,563
1938	75	34	522	309	101	121	191	241	1,594
1937	81	32	494	296	85	109	172	229	1,498
1936	70	34	440	226	67	101	156	221	1,315
1935	65	33	395	221	50	89	148	179	1,173
1934	65	29	364	176	50	78	128	212	1,122
1933	52	27	378	167	45	73	111	157	1,010
1932	52	27	331	147	39	62	103	146	907
1931	41	25	283	123	36	55	102	122	767
1930	40	74	246	110	35	(A)	(A)	177	662
1929	37	71	220	102	31	(A)	(A)	159	619
1928	33	56	188	90	28	(A)	(A)	146	545
1927	26	47	135	72	30	(A)	(A)	137	447
1926	21	39	118	67	32	(A)	(A)	114	391
1925	21	16	108	48	29	40	43	39	344
1924	15	25	94	33	41	(A)	(A)	94	302
1923	16	23	86	30	47	(A)	(A)	92	294
1922	16	35	67	28	52	(A)	(A)	68	306
1921	15	39	81	28	53	(A)	(A)	82	288
1920	15	42	77	27	60	(A)	(A)	82	303

SOURCE: D.B.S. (SPECIAL COMPILATION).

(A) INCLUDES IN "OTHER EXPENDITURE"



1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
---	---	---	---	---	---	---	---	---	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	-----

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MUNICIPAL GOVERNMENT - NET GENERAL EXPENDITURE BY PROVINCE
SELECTED YEARS: 1933 - 1959
(Millions of Dollars)

YEAR	PEL- FUNDLAND	PRINCE EDWARD ISLAND	NOVA SCOTIA	NEW BRUNSWICK	QUEBEC	ONTARIO	MANITOBA	SASK- ATCHEWAN	ALBERTA	BRITISH COLUMBIA	TOT L
1933	6	3	47	41	377 (a)	520	85	108	180	186	1,553
1938	6	4	43	39	276 (a)	727	76	96	158	167	1,594
1947	7	3	39	34	248 (a)	699	71	89	135	133	1,498
1956	5	3	33	35	229 (a)	602	66	82	136	124	1,315
1958	3	3	28	29	202 (a)	540	64	74	120	110	1,173
1961	3	3	29	27	197 (a)	505	56	69	114	117	1,122
1964	3	2	27	26	231	379	53	61	113	95	1,010
1969	3	2	27	24	227	369	48	54	91	88	907
1972	2	2	27	24	201	294	46	47	76	75	787
1971	1	2	25	20	201	294	46	47	76	75	787
1970											582
1969											619
1968											545
1967											547
1966											391
1965											344
1964											302
1963											294
1962											306
1961											286
1960											303
1959											
1958											
1957											
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1937											
1936											
1935											
1934											
1933											

BREAKDOWN NOT AVAILABLE

(a) INCLUDES CAPITAL EXPENDITURE FOR SCHOOLS AND HOSPITALS (NOT OF CAPITAL FUNDS).

(b) DOES NOT INCLUDE EXPENDITURE FOR CAPITAL FUNDS.

SOURCE: C. J. S. (SPECIAL COMPILATION).

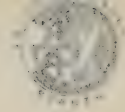


MUNICIPAL GOVERNMENTS DIRECT AND INDIRECT DEBT
BY PROVINCES FOR SELECTED YEARS: 1933 - 1959
(Millions of Dollars)

Year	NEW FOUNDLAND	PRINCE EDWARD ISLAND	NOVA SCOTIA	NEW BRUNSWICK	QUEBEC	ONTARIO	MANITOBA	SASK- ATCHEWAN	ALBERTA	BRITISH COLUMBIA	TOTAL
1929	19	7	100	95	1,422	1,570	148	144	445	303	4,333
1930	16	6	80	89	1,198	1,440	125	124	353	344	3,823
1937	17	7	78	82	1,028	1,266	118	111	366	316	3,287
1936	14	6	73	74	909	1,110	105	99	317	286	3,005
1935	11	6	62	69	855	945	94	84	261	273	2,662
1934	7	5	61	64	772	854	84	73	277	209	2,356
1933	6	4	56	58	681	746	73	57	181	136	2,058
1932	5	4	52	54	602	623	69	49	145	161	1,764
1931	4	4	45	47	549	546	56	47	125	151	1,564
1930											1,323
1949											1,175
1948											1,056
1947											976
1946											983
1945											992
1943	-	2	22	19	472	282	60	76	50	93	1,076
1941	-	3	25	22	503	342	72	87	57	103	1,214
1939	-	3	27	22	523	413	82	98	62	111	1,341
1937	-	3	27	23	507	464	96	87	67	112	1,366
1933	-	2	29	22	503	540	100	68	74	116	1,461

BREAKDOWN NOT AVAILABLE

SOURCE: C.B.S. (SPECIAL COMPILATION)



PSEUDONYM VOL. VOLUME									
1933	1934	1935	1936	1937	1938	1939	1940	1941	1942
1	2	3	4	5	6	7	8	9	10
11	12	13	14	15	16	17	18	19	20
21	22	23	24	25	26	27	28	29	30
31	32	33	34	35	36	37	38	39	40
41	42	43	44	45	46	47	48	49	50
51	52	53	54	55	56	57	58	59	60
61	62	63	64	65	66	67	68	69	70
71	72	73	74	75	76	77	78	79	80
81	82	83	84	85	86	87	88	89	90
91	92	93	94	95	96	97	98	99	100
101	102	103	104	105	106	107	108	109	110
111	112	113	114	115	116	117	118	119	120
121	122	123	124	125	126	127	128	129	130
131	132	133	134	135	136	137	138	139	140
141	142	143	144	145	146	147	148	149	150
151	152	153	154	155	156	157	158	159	160
161	162	163	164	165	166	167	168	169	170
171	172	173	174	175	176	177	178	179	180
181	182	183	184	185	186	187	188	189	190
191	192	193	194	195	196	197	198	199	200
201	202	203	204	205	206	207	208	209	210
211	212	213	214	215	216	217	218	219	220
221	222	223	224	225	226	227	228	229	230
231	232	233	234	235	236	237	238	239	240
241	242	243	244	245	246	247	248	249	250
251	252	253	254	255	256	257	258	259	260
261	262	263	264	265	266	267	268	269	270
271	272	273	274	275	276	277	278	279	280
281	282	283	284	285	286	287	288	289	290
291	292	293	294	295	296	297	298	299	300
301	302	303	304	305	306	307	308	309	310
311	312	313	314	315	316	317	318	319	320
321	322	323	324	325	326	327	328	329	330
331	332	333	334	335	336	337	338	339	340
341	342	343	344	345	346	347	348	349	350
351	352	353	354	355	356	357	358	359	360
361	362	363	364	365	366	367	368	369	370
371	372	373	374	375	376	377	378	379	380
381	382	383	384	385	386	387	388	389	390
391	392	393	394	395	396	397	398	399	400
401	402	403	404	405	406	407	408	409	410
411	412	413	414	415	416	417	418	419	420
421	422	423	424	425	426	427	428	429	430
431	432	433	434	435	436	437	438	439	440
441	442	443	444	445	446	447	448	449	450
451	452	453	454	455	456	457	458	459	460
461	462	463	464	465	466	467	468	469	470
471	472	473	474	475	476	477	478	479	480
481	482	483	484	485	486	487	488	489	490
491	492	493	494	495	496	497	498	499	500
501	502	503	504	505	506	507	508	509	510
511	512	513	514	515	516	517	518	519	520
521	522	523	524	525	526	527	528	529	530
531	532	533	534	535	536	537	538	539	540
541	542	543	544	545	546	547	548	549	550
551	552	553	554	555	556	557	558	559	560
561	562	563	564	565	566	567	568	569	570
571	572	573	574	575	576	577	578	579	580
581	582	583	584	585	586	587	588	589	590
591	592	593	594	595	596	597	598	599	600
601	602	603	604	605	606	607	608	609	610
611	612	613	614	615	616	617	618	619	620
621	622	623	624	625	626	627	628	629	630
631	632	633	634	635	636	637	638	639	640
641	642	643	644	645	646	647	648	649	650
651	652	653	654	655	656	657	658	659	660
661	662	663	664	665	666	667	668	669	670
671	672	673	674	675	676	677	678	679	680
681	682	683	684	685	686	687	688	689	690
691	692	693	694	695	696	697	698	699	700
701	702	703	704	705	706	707	708	709	710
711	712	713	714	715	716	717	718	719	720
721	722	723	724	725	726	727	728	729	730
731	732	733	734	735	736	737	738	739	740
741	742	743	744	745	746	747	748	749	750
751	752	753	754	755	756	757	758	759	760
761	762	763	764	765	766	767	768	769	770
771	772	773	774	775	776	777	778	779	780
781	782	783	784	785	786	787	788	789	790
791	792	793	794	795	796	797	798	799	800
801	802	803	804	805	806	807	808	809	810
811	812	813	814	815	816	817	818	819	820
821	822	823	824	825	826	827	828	829	830
831	832	833	834	835	836	837	838	839	840
841	842	843	844	845	846	847	848	849	850
851	852	853	854	855	856	857	858	859	860
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Royal Commission on Banking and Finance

THE GOVERNMENT OF THE PROVINCE OF ONTARIO

Hearings
held at

OTTAWA

Vol. *Volume 56* Date.

56 *October 30, 1962*



Official Reporters
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Toronto, Ont.



ROYAL COMMISSION ON BANKING

AND FINANCE

- - - - -

Hearings held at Ottawa,
Ontario, on Tuesday,
October 30th, 1962.

- - - - -

THE COMMISSION

The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario - Chairman

Mr. W. Thomas Brown, M.B.E.
Investment Dealer
Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E.
Banker
Toronto, Ontario

Mr. Gordon L. Harrold
Agriculturalist
Calgary, Alberta

Mr. Paul H. Leman
Corporation Executive
Montreal, Quebec

Mr. John C. MacKeen
Corporation Executive
Halifax, Nova Scotia

Dr. W. A. Mackintosh
Vice-Chancellor
Queen's University
Kingston, Ontario

- - - - -

Mr. H. A. Hampson - Secretary

Mr. Gilles Mercure - Joint Secretary



Hearings held at Ottawa,

...

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- Chairman
Toronto, Ontario

Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E.
- Chairman
Toronto, Ontario

Agriculturalist

Corporation Executive

Corporation Executive

Dr. W. A. Mackintosh

- Secretary



Ottawa, Ontario,
Tuesday, October 30th, 1962.

--- On resuming at 9.30 A.M.

SUBMISSION OF THE
GOVERNMENT OF THE PROVINCE OF ONTARIO

APPEARANCES

Hon. J.P. Robarts	-	Prime Minister of the Province of Ontario
Hon. R.W. Macaulay	-	Minister of Economics and Development
Hon. J.W. Allan	-	Treasurer
S.W. Clarkson	-	Deputy Minister of Economics and Development
H. Brown	-	Deputy Treasurer
F. Hickey	-	Asst. Deputy Minister, Dept. Municipal Affairs.
D.W. Stevenson	-	Director, Economics Branch Dept. Economics & Development.
Professor S. Triantis	-	University of Toronto.
D.R. Richmond	-	Asst. Director, Economics Branch, Dept. Economics & Development.

THE CHAIRMAN: We are very *pleased indeed
to have a representation this morning from the
Government of Ontario. We have all read your brief
with great interest and look forward to the discussion
that will no doubt ensue. I understand, Mr. Premier,
that you wish to make a preliminary statement yourself,
to be followed by a statement from Mr. Macaulay?

PREMIER ROBARTS: Yes, My Lord. I
thought I would perhaps read this relatively short



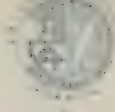
1 introduction which sets out in essence our basic
2 position. Mr. Macaulay will then make further
3 submissions to you. Also, we have with us Mr. Allan,
4 the Treasurer, Mr. Brown, the Deputy Treasurer;
5 Mr. Clarkson, the Deputy Minister of Economics and
6 Development, plus certain members of their staffs
7 who can give you detailed answers that you may require.

8 If I may, then, proceed, I would say that
9 I welcome this opportunity to appear before the
10 Royal Commission on Banking and Finance and to have an
11 opportunity to present the views of the Government
12 of Ontario on these questions which are so vitally
13 important to the economic health and well-being of
14 Canada and this province.

15 As I have said, following these brief
16 remarks the Minister of Economics and Development will
17 outline our specific recommendations in greater detail.

18 In my opinion, the investigation which your
19 Commission is making into the question of the operation
20 of our financial system and monetary policies is
21 extremely appropriate because we are in a crucial
22 period in the economic development of our country.

23 I can assure you that we in the Province of Ontario
24 are deeply concerned with many of the problems with
25 which you are grappling. It is my understanding that
26 you have already reviewed copies of our brief. You
27 are aware that we have restricted our remarks, in the
28 main, to matters of policy rather than to specific
29 details. Officials of my Government from the
30 Departments of Economics and Development, Treasury and



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1 Municipal Affairs are, however, prepared to answer
2 questions arising out of the material submitted in our
3 brief. I can assure you that these gentlemen will
4 welcome the opportunity to answer specific questions
5 which you may have for them about our presentation.

6 If I may digress for a moment I would
7 like to say how very pleased I am to see that the
8 appointment of your Commission has been followed by
9 a Royal Commission on Taxation. I would, of course,
10 have been even more pleased if the Federal Royal
11 Commission on Taxation had been given broad powers to
12 study, examine and make recommendations upon the whole
13 problem of the present distribution of taxation powers
14 and financial responsibility between the Federal
15 Government and the Governments of the Provinces. I
16 have advocated such a Royal Commission for some time
17 and I have already gone on record as stating that the
18 Ontario Government will appoint a committee to study
19 the problems of taxation within Ontario's jurisdiction.

20 In my view, the problems of financing
21 municipal and provincial government operations in Canada
22 today cannot be entirely divorced from considerations
23 of their revenue resources. This, to us, seems to
24 indicate that your Commission in the course of performing
25 its extremely valuable function, will have its task
26 made more difficult by the fact that the whole field
27 of government incomes and tax revenues has not been
28 thoroughly studied for some twenty-four years. Even
29 though we will have to wait some time for the reports
30 from the various Commissions on Taxation, your

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questions arising out of the material submitted in our
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1 Commission will assuredly play an important role in
2 devising policies to assist in the continued economic
3 expansion of Canada.

4 The Twentieth Century has revolutionized
5 man's thinking on the permanency and perfectibility of
6 his institutions. If nothing else, we have learned that
7 what we create today may well be obsolete tomorrow.
8 This is true in terms of machines as well as in terms
9 of economic and social development. I would suggest,
10 for example, that very few, even among visionaries,
11 at the turn of the Century would have prophesied the
12 consolidation of an economic union in Europe. Yet,
13 with the establishment of the European Economic
14 Community this has come about. We, in Ontario and,
15 I think, in Canada, are therefore becoming more and
16 more aware of the need to re-examine our methods and
17 policies in order to ensure that they are adequate,
18 efficient and capable of meeting the needs of a rapidly
19 changing environment.

20 At the present time, we in Ontario are
21 faced with the prospects of a reorganization of
22 parts of our economy, and in particular our secondary
23 manufacturing industry. In the coming years, if
24 present indications continue, lower tariffs on manufactured
25 goods will mean adjustments in the competitive forces
26 now at work in our economy. A great deal of capital
27 will be required to enable our manufacturing and other
28 facilities to adapt to the new conditions as they
29 arise. We in Ontario are going to do our utmost to
30 see that our manufacturing industries take advantage



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see that our manufacturing industries take advantage



1 of every opportunity presented by these changing economic
2 forces. Furthermore, we recognize that one of the
3 most vital ingredients of change is an efficiently
4 operating and flexible banking and financial system
5 which allows capital to be channelled into the most
6 productive sectors of our economy as smoothly as
7 possible.

8 We cannot over-estimate the importance
9 which the Ontario Government places on such a banking
10 and financial system. Even though we have fallen
11 slightly behind in the height of the buildings which
12 house our banks and financial institutions, I am
13 advised that Bay Street still remains the financial
14 heart of Canada. We have almost every type of financial
15 institution in this Province. These institutions are
16 a great source of strength to the economy, although
17 like all works of human hands and minds, they
18 undoubtedly have some weaknesses. The main purpose
19 of your inquiry, I should judge, is the finding
20 of any weaknesses which may have arisen and the recommend-
21 ing of ways in which they may be corrected and ways
22 to improve on present policies and practices. In our
23 brief we make some observations and recommendations
24 which we hope will help in your task.

25 Fundamental to the recommendations contained
26 in this Government's submission is our conviction
27 that the over-riding goal of economic and financial
28 reorganization and policy should be economic growth.
29 To achieve this end, all other economic goals should
30 be subordinate. Since in our democratic system, the



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1 responsibility for deciding the goals to be pursued
2 and the general methods of implementing these goals
3 rests with the elected representatives, it should be
4 made clear by statute that the Bank of Canada is an
5 instrument through which the Government of Canada
6 can achieve some of its economic goals.

7 In our submission, we stress the importance
8 to economic expansion of investment in human capital
9 or intangible assets, of which a progressing system
10 of education represents a prime example, and the
11 role of the provinces and the municipalities in providing
12 it. Such investment in intangible assets may provide
13 a greater return than investment in physical assets of
14 buildings, machinery and so on. For this reason, those
15 agencies engaged in the provision of human capital must
16 be assured of adequate revenues. Details of our views
17 in this regard are set out in the main body of our brief.

18 Among our other recommendations we urge
19 that selective credit procedures be adopted to facilitate
20 our exports and prevent discrimination against small
21 business.

22 We recommend that a national institute
23 of economic research be established.

24 We recommend that a provincial nominee
25 be appointed to the Board of Directors of the Bank
26 of Canada.

27 We recommend that the ceiling on chartered
28 bank interest rates be raised.

29 We recommend that a uniform and simplified
30 basis for expressing effective interest rates be



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1 made compulsory.

2 We recommend that the present withholding
3 tax levied on the interest on provincial and municipal
4 bonds held abroad be abolished.

5 Among these recommendations are a number of
6 ideas which, if implemented, will, we think, promote
7 economic development in this country and in this
8 province. On aspects more directly related to the
9 financing of the provincial government and the
10 municipalities in Ontario you will be able to obtain
11 additional information about our thinking from the
12 officials of my government present here today.

13 I would like to emphasize in closing this
14 introduction that the purpose of our submission is not
15 to provide you with details of the operations of financial
16 institutions in this Province nor to give you information
17 which the research staff of your Commission has probably
18 already collected. What we are presenting is the
19 thinking of the Government of Ontario on some aspects
20 of the over-all operation of the financial and banking
21 system in this Province. The recommendations we have
22 made have been for the purpose of ensuring that our
23 financial and banking system is a force for economic
24 growth in this country.

25 That completes the introductory remarks,
26 Mr. Chairman.

27 THE CHAIRMAN: Thank you, Mr. Prime
28 Minister. Mr. Macaulay?

29 MR. MACAULAY: Thank you, sir. I would
30 say to you at once that the comments I will be making



1946 (10/10/46)

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Minister, Mr. Macaulay

MR. MACAULAY: Thank you, sir. I would

say to you at once that the comments I will be making



1 on this brief can be contained, I believe, within a
2 20-minute period. I will not be reading to Your
3 Lordship and his colleagues, but rather commenting
4 upon some of the recommendations that we have made
5 in this brief.

6 I would say, if I may, sir, initially that
7 this brief differs somewhat from the traditional
8 kind of brief that the province has presented on matters
9 like this,

10 and perhaps somewhat different from some of the briefs
11 which Your Lordship has received to date.

12 I would say that we have tried in this
13 brief to strike a rather broad, philosophical approach,
14 if that phrase be apt, to the matters of finance,
15 budget, and so forth in this country, and we hope
16 our observations are broad enough to embrace all of
17 the problems with which the other provinces are faced
18 rather than presenting to you, sir, and your associates,
19 simply something on our own behalf.

20 The specifics of our recommendations are
21 15 in all and, if I might, I would appreciate the
22 opportunity of just enumerating those to you and
23 making a very brief comment upon each one of them.

24 Our first recommendation is that we believe,
25 as the Prime Minister has said, that the basic goal
26 of our economic and financial policies in Canada must
27 be a satisfactory rate of growth. I recognize that
28 is a pretty elementary observation, but I am not
29 satisfied, and I should say the Prime Minister's
30 government is not satisfied, that this is a universally



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statement is not satisfied, that this is a universally



1 held concept -- certainly, universally as far as the
2 country is concerned. We believe it is essential
3 that in Canada we accept the basic goal of our economic
4 and financial policies to be the establishment, the
5 obtaining and the maintenance of a satisfactory rate
6 of growth. We acknowledge that a satisfactory rate
7 of growth is not the only goal, but believe it to be
8 the cardinal goal. There are other goals that we
9 have stated for which we believe our systems must
10 stand and upon which they must be judged, such as
11 full employment, the stability of incomes, equitable
12 distribution of national product, and so forth.
13 But, basically speaking, we believe the basic goal
14 of our economy should be a satisfactory rate of growth.

15 The second conclusion that we are placing
16 before Your Lordship and his associates on this
17 Commission is this: we believe that if we do accept
18 that a satisfactory rate of growth is the first
19 requisite of the functioning of our economy that our
20 second recommendation is that the Federal Government
21 should state publicly what national goals it seeks
22 to obtain, and should state how in its opinion these
23 goals should be achieved. Until there is an understanding
24 of what the fundamental objectives of legislation and
25 policy are, it is inevitable that we are unaware
26 of whether we are arguing in Canada over the techniques
27 to obtain these goals or over the goals themselves.
28 Whilst we well recognize and accept the argument
29 that different people place different emphasis upon
30 goals, some of which I have mentioned, such as full



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1 employment, rate of growth, stability of incomes,
2 stability of prices, distribution of gross product
3 in the country, nevertheless, we think that we must
4 establish on a national level and publicly acclaim
5 what the goals of the nation are. We believe that
6 the people in this country are prepared to work hard
7 and prepared for sacrifice, but it is also essential
8 that they be presented with whatever goals this nation
9 as a nation is seeking to obtain. As we have said
10 in our brief, we believe that uncertainty or disagreement
11 in responsible circles about the mix of goals to
12 be pursued is not conducive to the formulation or
13 execution of appropriate policies. We think that
14 on such a statement being made it is easier to
15 discern whether we are debating the mix of the goals
16 themselves or the techniques. But, I think once
17 we accept what the goals are it seems to us it is
18 an easier thing to bring about policies that make
19 this possible. We believe we should strive in this
20 country for an economic rate of growth in the
21 neighbourhood of 4 to $4\frac{1}{2}$ per cent. We think that
22 the national goals should be specifically set forth
23 in the preamble to the Bank of Canada Act.

24 The third recommendation which we are
25 making to this Commission relates to the Bank of Canada Act
26 the and/Bank Act amendments, and there are six we are
27 proposing. I have brought these together in one place,
28 and the six are these:

29 We would like to see the preamble of the
30 Bank of Canada Act amended to establish that a



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1 satisfactory rate and pattern of economic growth
2 be the chief test of the structure, functioning and
3 policies of our financial and monetary system.

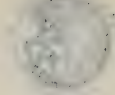
4 Second, we would like to see the Bank of
5 Canada Act amended to provide a clarification of the
6 relationship of the Government of Canada to the
7 central bank.

8 Thirdly, we would like to see the Act
9 amended to establish that the decisions taken on
10 the combination of goals of monetary and related
11 policy rest exclusively upon the elected representatives
12 of the people of Canada.

13 Fourth, we would like to see an amendment
14 introduced to provide that monetary, budgetary and
15 debt management policies cannot be separated from the
16 techniques employed to achieve pre-determined decisions.
17 It is, in our opinion, impossible to separate the
18 responsibilities of government from the responsibilities
19 of monetary, budgetary and debt management decisions.

20 Fifthly, as the Prime Minister has already
21 said, we would like to see the provinces represented
22 on the Board of Directors of the Bank of Canada.
23 I am not suggesting to you that this means that every
24 province should have a representative. All we are
25 doing is drawing to your attention that we believe
26 that the provinces should be represented on the
27 Board of Directors of the Bank of Canada.

28 The sixth amendment
29 we would propose is the raising of the interest
30 ceiling under Section 91 of the Bank Act.



1 policies of our financial and monetary system.

2 Secondly, we would like to see the Bank of

3 Canada Act amended to provide a clarification of the

4 relationship of the Government of Canada to the

5 central bank.

6 Thirdly, we would like to see the Act

7 amended to establish that the decisions taken on

8 the composition of seats of monetary and related

9 policy rest exclusively upon the elected representatives

10 of the people of Canada.

11 Fourth, we would like to see an amendment

12 introduced to provide that monetary, budgetary and

13 debt management policies cannot be separated from the

14 techniques employed to achieve pre-determined decisions.

15 It is, in our opinion, impossible to separate the

16 responsibilities of Government from the responsibilities

17 of monetary, budgetary and debt management decisions.

18 Fifthly, as the Prime Minister has already

19 said, we would like to see the provinces represented

20 on the Board of Directors of the Bank of Canada.

21 I am not suggesting to you that this means that every

22 province should have a representative. All we are

23 doing is drawing to your attention that we believe

24 that the provinces should be represented on the

25 Board of Directors of the Bank of Canada.

26 we would propose in the raising of the interest

27 ceiling under section 91 of the Bank Act.



Nethercut & Young

- 7031 -

Toronto, Ontario

1 I will return to a couple of these
2 observations, if I may, Mr. Chairman, in a few moments,
3 but that assembles in one place the six changes or
4 amendments or additions or deletions we would propose
5 to you in relation to the Bank of Canada Act and the
6 Bank Act. The fourth recommendation we are making
7 in our brief is that we recommend there be established
8 a national institute for economic research in
9 Canada. Canada has no such institution, whilst the
10 United Kingdom, Sweden, Pakistan, India, the Netherlands
11 and Germany, and so forth, just to name a few, have
12 such an institution. If I may so with great respect,
13 ad hoc bodies, as effective as they have been in
14 certain fields, and as effective as we are confident
15 you and your associates will be in this field, are
16 no real substitute for regular and painstaking research.
17 We believe that in establishing in Ontario an
18 Economic Council and a research branch in our own
19 Department of Economics and Development that we have
20 gone some distance in resolving this problem, but
21 it really is not as effective as doing it on a national
22 basis.

23 There are three problems which occur to
24 us, My Lord, today that we think demand urgent
25 study, and that they must be done on a national basis
26 by a systematic, regular and painstaking method. One
27 of those is the impact of EEC (the European Economic
28 Community) upon trade in this country.



Nethercut & Young

Toronto, Ontario

- 7032 -

1 The second is the impact of President
2 Kennedy's tariff proposals.

3 The third one is, or are the specific
4 problems relating to small business.

5 The fourth that occurred to me was a
6 special export study relating to joint ventures that
7 we feel perhaps is one of the important substitutes
8 for the type of financing of ventures which we now
9 have underway in this country and elsewhere.

10 Now, these are four very important problems.
11 There is in our opinion no point whatsoever in talking
12 wishfully about the future and about lifting our
13 economy to its highest destiny unless we are prepared
14 to research our problems first and ^{act} upon this information.

15 Now, Your Lordship and his colleagues
16 may come to the conclusion that this is not within
17 your terms of reference, but we believe, sir, that
18 if finance is within your terms of reference for
19 economic growth and stability, then so must be know-
20 ledge based on the **empirical** conclusion and analysis
21 of information.

22 The fifth recommendation which we make
23 to this Royal Commission is that we urge you to make
24 recommendations relative to the communication of all
25 available information between segments of the economy
26 and our political institutions in Canada. We believe
27 that there are some sectors of economic life
28 which suffer today from disabilities which stem basically
29 from the lack of communication and the lack of
30 information. We think that they are, for instance in

The second is the impact of President

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special expert study relating to joint ventures that we feel perhaps is one of the important substitutes for the type of financing of ventures which we now have underway in this country and elsewhere.

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and our political institutions in Canada. We believe

that there are some sectors of economic life

from the lack of communication and the lack of

information. We think that they are, for instance in



1 the case of small businesses and some certain segments
2 of our economy, suffering from the lack of information
3 and ignorance and sources and methods of financing.
4 We think that many problems have arisen in a sector
5 of our economy. I do not have the figures in front
6 of me, but I think it is worthwhile noting that I
7 think the D.B.S. says that -- is it 95 or 85 per cent --
8 85 per cent I believe of most of businesses -- 90 per
9 cent of businesses in Canada can be classed as small
10 businesses.

11 Now, there are some people who believe
12 that we have given too much attention in this country
13 to small businesses. I do not happen to be one of
14 those people. Neither is the Treasurer or the
15 Prime Minister. We believe that this is a very
16 important area of development.

17 We also believe that one of the characteristics
18 of a dynamic society, a growing society, is the number
19 of small businesses there are. We think they suffer
20 at the moment from a lack of information quite apart
21 from the lack of financial assistance to which we will
22 make reference a little later.

23 I might just say in concluding that single
24 point that our brief deals with this more effectively
25 than I am able to, or as I have dealt with it today,
26 sir, but we are anxious that you bring this point home
27 to those who can act upon your recommendations, and
28 those who will be influenced by them, because it may
29 very well be that what is needed is a broader
30 and improved base of communication rather than to change

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of our economy, suffering from the lack of information
and ignorance and sources and methods of financing.

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of our economy. I do not have the figures in front

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to those who can act upon your recommendations, and
those who will be influenced by them, because it may
very well be that what is needed is a broader
and improved base of communication rather than to change



1 the size or number of our financial institutions.

2 Now, the sixth recommendation that we
3 are making to the Royal Commission is this. We are
4 asking you positively to emphasize the importance of
5 the investment that is made in human capital in Canada.

6 We believe in Ontario that a dollar
7 invested in human capital produces the same kind
8 and the same size of dividend as a dollar invested
9 in physical capital and, in fact, from the studies
10 that have been carried on in the United States relative
11 to this equation -- there are many worthwhile
12 published works which evidence that in the United
13 States this is true -- we believe it to be true
14 here. We are asking you in emphasizing the importance
15 of the investment of human capital to relate the
16 investment to the investment of physical capital
17 but not to subordinate it to it.

18 We hope that in your conclusions, your
19 preamble or your observations that you will draw
20 emphatic attention to the importance of improving
21 our educational systems and the importance of training
22 and retraining the labour forces, and the effect that
23 human capital investment has upon the strength, the
24 stamina, the mental health, the vigour and vitality
25 of the nation.

26 Our seventh recommendation deals with
27 somewhat the same aspect but we base it in this way;
28 that since welfare and education are the chief
29 responsibilities of the provinces and the municipalities,
30 we urge you to give the greatest emphasis to the kinds

the size or number of our financial institutions.

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somewhat the same aspect but we base it in this way:

that since welfare and education are the chief

responsibilities of the provinces and the municipalities,

we urge you to give the greatest emphasis to the kinds



1 and the reliability of the tax resources and the
2 credit requirements of the provinces and the municipi-
3 palities.

4 One of the fundamental points that we are
5 anxious to make to you is this, and it is I am sure
6 not new, but, nevertheless, in relation to the provinces
7 and the municipalities which have a very large invest-
8 ment in the human capital of this country, they have
9 not the same kind of flexibility as do have industries
10 or the federal government. We have a kind of built-in
11 and ever-enlarging responsibility because once a child
12 enters into the school system at age five he is our
13 obligation until he is aged sixteen or higher, and
14 tight money or no tight money, we have to care for him.

15 Now, this is not necessarily true in relation
16 to industry, and it is not necessarily true in relation
17 to many of the obligations of the federal government.
18 So, we say unto you that we are very concerned about the
19 adequacy of social overhead capital available to
20 the provinces and municipalities.

21 Whilst we have not included many facts
22 or figures in our brief, I would be obligated to you
23 gentlemen if you would bear this in mind as to our
24 own province alone. These are figures which I think
25 show the startling responsibility which we have in
26 our province to accept. We are not saying we are in
27 a different position than any other province. We
28 are only able to speak on our own behalf in this
29 connection.

30 We have today in our elementary and secondary

and the reliability of the tax resources and the

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our province to accept. We are not saying we are in

a different position than any other province. We

are only able to speak on our own behalf in this

We have today in our elementary and secondary



schools 1,462,000 children -- roughly $1\frac{1}{2}$ million.
Now, in an eight year period we are going to have an
increase of over 350,000 pupils. This will come some-
where near 1,800,000 pupils in an eight year period.
This means more teachers, more schools, more teachers'
colleges, more books, more classrooms and more every-
thing that goes with it for 400,000 or 300 and some odd
thousand more pupils. This is a very staggering
amount for any province to assume.

May I just say to you that in 1961 the
province of Ontario paid to the school boards \$181
million, and in 1970 we expect to be paying \$400 million
a year.

Now, that \$400 million, My Lord, does not
include the cost of teachers' colleges, university
grants and a number of other expenditures. That is
in respect of education.

In respect of health, and this is the last stat-
istic I will be giving you I hope this morning, we are
paying for hospital services out of the provincial
Treasury in 1962 \$52 million in Ontario. In 1965 --
that is three years hence -- this figure is going
to be \$100 million. These are two of the built-in
inflexible kind of expenditures in which we are involved.

We believe that public expenditures on
health and education in total, as a total of the
national expenditure, is going to increase in the
coming years.

I am sorry, I have one other figure.
The gross national product in the last ten years has



45,000 children -- roughly 1 1/2 million.

In an eight year period we are going to have an increase of over 350,000 pupils. This will come somewhere near 1,800,000 pupils in an eight year period. This means more teachers, more schools, more teachers' colleges, more books, more classrooms and more everything that goes with it for \$50,000 or 700 and some odd thousand more pupils. This is a very staggering amount for any province to assume.

May I just say to you that in 1961 the

provinces of Ontario paid to the school boards 1181 million, and in 1970 we expect to be paying \$400 million a year.

Now, that \$400 million, Mr. Ford, does not

include the cost of teachers' colleges, university grants and a number of other expenditures. That is the need of education.

In respect of health, and this is the last

ratio. I will be giving you I hope this morning, we are

giving for hospital services out of the provincial

Treasury in 1965 \$25 million in Ontario. In 1965 --

that is three years hence -- this figure is going

to be \$100 million. There are two of the built-in

inflexible kind of expenditures in which we are involved.

We believe that public expenditures on

health and education in total, as a total of the

national expenditure, is going to increase in the

future.

I am sorry, I have one other figure

for national product in the last ten years has



1 gone up by 120 per cent, and federal expenditures have
2 gone up 162 per cent, but Ontario expenditures have
3 gone up 218 per cent.

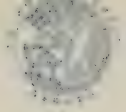
4 Now, the Prime Minister, and I do not
5 need to comment on this, has indicated what he has
6 undertaken in the province with reference to an
7 investigation of the tax responsibilities and resources
8 of the province and the municipalities.

9 He has also said that he regrets that
10 this is not a nation-wide movement because we are
11 only really dealing with half the problem.

12 The federal government is well lodged
13 in the centre of the road in terms of financing and
14 budgeting and, therefore, for us to investigate it
15 on a provincial basis is only half of the problem.
16 We are sorry that it is not being done on a federal
17 basis, but it may be that in these representations
18 to you and what flows from them, namely, your con-
19 clusions, some attention can be given to that aspect
20 of the matter.

21 As I have said to Your Lordship and his associates
22 regarding these expenditures of ours in these
23 fields alone, we cannot turn them on and turn them
24 off, they are steady, they are built in and they are
25 long term.

26 Now, in this connection also, and perhaps
27 it has already been referred to sufficiently -- I do
28 not want to overdo this matter, but it is a very
29 important problem to all of the provinces and the
30 municipalities -- we cannot depend for these things



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not want to overdo this matter, but it is a very

important problem to all of the provinces and the

municipalities -- we cannot depend for these things



1 on contra-cyclical budgeting on the federal level,
2 nor contra-cyclical financing, monetary or other fiscal
3 legislation, policies, resolutions, or whatever they
4 may be. We believe there is a greater need, or in
5 any event there is a need for greater amount of
6 consultation between the federal government and the
7 provinces as to the provinces' and municipalities'
8 needs contained therein.

9 When a province has this problem, when
10 there is insufficient revenue, it has to turn to
11 borrowings, and most of our borrowings are over
12 a long term and, therefore, on a long term basis and
13 interest becomes a very big item. This is not necessarily
14 so in respect to companies or others that can borrow
15 on a 90-day, 365-day, or even a 5-year basis. Industry
16 does not take that ominous burden on itself which the
17 provinces and municipalities do, having to borrow on
18 a long-term basis.

19 Now, Your Lordship, I have, therefore,
20 set forth at page 19, the suggestion, about the middle
21 of the page, to you that in formulating proposals for
22 changes or reforms in the techniques and policies
23 of monetary control your Commission should bear in
24 mind the following considerations among others:
25 (a) the likely contribution of the various sectors
26 of the economy to sudden inflationary or deflationary
27 pressures.

28 The preamble to that observation is that
29 there are certain elements in our economy which con-
30 tribute more than others to inflation or deflation, yet

on contra-cyclical budgeting on the federal level,
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(a) the likely contribution of the various sectors

of the economy to sudden inflationary or deflationary

pressures.

The preamble to that observation is that

there are certain elements in our economy which con-

tribute more than others to inflation or deflation. Yet



1 they are all punished equally when the block falls;
2 when tight money or whatever other programme comes in.
3 This is because we do not have sufficient selective
4 controls, nor is our banking or finance system in
5 our opinion sufficiently flexible to deal with these
6 things.

7 (b) The speed and effectiveness with which the various
8 sectors respond to changes in credit policy, --
9 -- and I draw to Your Lordship's attention that organ-
10 izations such as private companies can respond pretty
11 quickly to changes in credit policy, but when you have
12 heavily built-in expenditures such as we have in respect
13 of our health, welfare and education, it is obvious
14 these things respond very slowly.

15 We ask you to give special consideration
16 to the speed and effectiveness with which expenditures
17 in various sectors are able to recover when a policy
18 of tight money is relaxed. I am going to suggest to
19 Your Lordship a little later on one of the elements
20 of our economy which does not recover perhaps at all,
21 and that is the export trade.

22 (c) We ask you to give consideration to the need
23 in pursuing policies of stabilization of prices,
24 employment and incomes, to avoid discouraging
25 or otherwise unduly affecting the long-term
26 prospects, and development of those sectors
27 of the economy which constitute the core and
28 basis of any policy of growth.

29 That then, My Lord, is the seventh recom-
30

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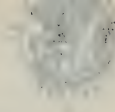
1 mendation.

2 The eighth recommendation is one that the
3 Prime Minister and I have already mentioned, namely,
4 we believe that provision should be made for provincial
5 governments to be represented on the board of directors
6 of the Bank of Canada. I want frankly to say this
7 to you, as we read the record our long term economic
8 and social development has not infrequently been
9 sacrificed to ill-conceived and ill-timed stabilization
10 measures undertaken by federal governments and others.
11 We believe our monetary system and policies tend to
12 discriminate against investments in social capital
13 entrusted to provincial and municipal governments
14 and in favour of public expenditure under federal
15 jurisdiction. This is why we feel, not only in the
16 sense of equity, but of even development in this country,
17 that there should be provision for representation of
18 provinces -- we are not talking about Ontario, we
19 are talking about all the provinces -- on the Board
20 of Directors of the Bank of Canada.

21 Now, the ninth observation or recommendation
22 that we want to make to the Royal Commission today
23 breaks itself down into two parts: if I may call them
24 9 (a) and 9 (b).

25 We are asking Your Lordship and his
26 colleagues to give special consideration to the
27 importance of small businesses. That is 9 (a).

28 9 (b) we urge that fresh attention be
29 given to the specific problems of small businesses
30 as well as their need for medium and long-term financing.



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colleagues to give special consideration to the
importance of small businesses. That is 9 (a).
9 (b) we want that fresh attention be
given to the specific problems of small businesses
as well as their need for medium and long-term financing.



1 Now, I think perhaps part of this is
2 slightly redundant and if it is they can be put together,
3 but we are very anxious that the report of the
4 Royal Commission emphasize, highlight, sparkle with a
5 concept of small business and that it give special
6 emphasis to the problems of small business, and that
7 it treat as a separate item the problems of medium
8 and long-term financing of small businesses.

9 Now, if I may just say this to the Royal
10 Commission, in Ontario 50 per cent of our labour
11 force is in businesses employing
12 15 or fewer people including self-employed.
13 8,000 of our 13,000 manufacturing organizations in
14 Ontario employ 15 or less people. I have said already
15 that a cardinal characteristic of a dynamic society
16 is the number and increasing number of small firms.
17 They do not have to be small but this is one of the
18 characteristics of a growing economy. Small businesses
19 are very important to us and to Canada, we believe.
20 They represent a number of great opportunities which,
21 without them, perhaps would not exist. It may be,
22 and we believe it is so, that the tendency today is
23 that people may not want to save for the future, but
24 that they might be prepared to make a down payment
25 today with what they have.
26
27
28
29
30



1 This is one of the attractions which small businesses
2 offer to people. Secondly, only a small business can
3 be supported in a small town. We have many small
4 cities and towns in our country -- not just in
5 Ontario, but in our country as a whole. We are doing
6 what we can in Ontario to bring about certain types
7 of decentralization, not only from a social standpoint
8 but also from an economic standpoint, and certainly
9 one of the key ingredients to a policy of decentralization
10 is small business. We do not think there is any
11 better defence of the social fabric and pattern of
12 life in Canada which we treasure so highly than the
13 encouragement of individual ingenuity and drive, as
14 evidenced in small business. In our brief we discuss
15 with you these and other aspects of small business.

16 Now if I may turn to 9(b) for a moment
17 and discuss some of the problems, as we see them,
18 of financing medium and long-term for these small
19 businesses. The progressive income tax has made
20 it virtually impossible for small businesses to
21 finance themselves out of savings or earnings.
22 Secondly, investors in Canada incline to invest in
23 what one might call "blue chip" investment rather than
24 in small businesses. A third point I think worthwhile
25 considering is that most of the borrowings of small
26 business -- the largest proportion -- are in the field
27 of medium and long-term. The small businesses have
28 difficulty in financing themselves. They do not have
29 a long or a good record, or they may be just starting,
30 so they have no record at all. Their revenues are



...we are doing

what we can in Ontario to bring about certain degree of decentralization, not only from a social standpoint but also from an economic standpoint, and certainly one of the key ingredients to a policy of decentralization is small business. We do not think there is any better defence of the social fabric and pattern of life in Canada which we treasure so highly than the encouragement of individual initiative and drive, as evidenced in small business. In our brief we discuss with you these and other aspects of small business.

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1 not stable; they have little experience. There is
2 no continuity of leadership, and they have no credit
3 rating.

4 We believe that the measures which have been
5 taken since the end of the war to deal with small
6 businesses have been inadequate, such as the
7 Small Business Loans Act, the Farm Credit Act, and
8 the Industrial Development Bank Act.

9 I should like to say one word, if I might,
10 about the Industrial Development Bank. From 1944
11 until 1961 its average yearly loans were \$22 million
12 for the whole of Canada. This, in our opinion, is
13 grossly inadequate, and in our opinion the caution
14 (if I may be excused such comment, Mr. Gibson)

15 of the Industrial Development Bank has incautioned
16 and out-banked the bankers.

17 We think, My Lord, that it is necessary
18 for a re-definition of the Industrial Development
19 Bank. We think we have to decide what is the
20 Industrial Development Bank standing for. Does it
21 stand for aid to small business? Does it stand for
22 regional development? Does it stand for industrial
23 development in less wealthy provinces? I think the Bank
24 has tried to bring about a mix of all of those.
25 It may be that that is the desirable way of handling
26 their business, but fundamentally the fact that
27 seven provinces have had to establish their own
28 agency, and that Ontario is now considering such an
29 agency, is I think indicative that the Bank has not
30 lived up to the heralded purposes for which it was



and which I have little experience. I think
the committee on education and the House
committee on the interior.

Since the end of the war we have been
businessmen have been handicapped, such as the

Small Business Loans Act, the Farm Credit Act, and
the National Agricultural Experiment Station Act.

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It may be that in the future way of handling

the business, but fundamentally the fact that
seven provinces have had to establish their own

agency, and that Ontario has now something such as
agency, is I think indicative that the Bank has not
been up to the mark in the past for which it was



1 thought at one time, or perhaps is thought now,
2 to stand. We also believe that the Industrial Development
3 Bank is an adjunct to the Bank of Canada and that
4 it is going to reflect the banking concept of this
5 country as opposed to a development concept.

6 Lastly, in terms of small businesses we
7 believe that there should be something established in
8 Canada to give advice, technical assistance, and so
9 forth, to small businesses. We are establishing
10 in Ontario a small business branch in the department
11 which I have the honour to represent here today, but
12 we think that something should be done on a national
13 level.

14 The tenth recommendation that we are
15 proposing to the Royal Commission is that we urge
16 all institutions extending consumer credit be required
17 to declare on a comparable basis the effective rate
18 or range of rates of interest which they charge
19 consumers. I do not think I need say anything more
20 about that. We state our case on page 30 of our brief
21 in that connection.

22 Our eleventh recommendation is that
23 the Small Loans Act be amended, and the reasons we
24 give are contained in paragraph 89 of our brief.
25 They are fairly simple, but I am sure they have already
26 been drawn to your attention.

27 Our twelfth recommendation deals with
28 the amendment of Section 91 of the Bank Act. There
29 are maybe many reasons for amending this section,
30 which would raise the ceiling of interest rates that

one thing, or perhaps in thought now.

We also believe that the Industrial Development Bank is an adjunct to the Bank of Canada and that it is going to reflect the banking concept of this country as opposed to a development concept.

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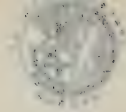
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1 banks can charge, but three that we would propose
2 are that interest does not ration loans during periods
3 of tight money because of the ceiling. The ceiling
4 does not do this. We believe that historically the
5 ceiling, secondly, was put on because at one time banks
6 had in effect a monopoly as to lending in this country.
7 They do not any more. Clearly with the trust companies,
8 the mortgage companies, the other finance companies,
9 in the field,
10 and so forth / the banks have no monopoly, and our
11 people are sufficiently aware of the services available
12 in other institutions. Thirdly, we believe that the
13 ceiling restricts the savings interest rate, which
14 discourage savings when savings may most be needed.
15 However, these reasons and others we have set out
16 in the brief.

17 My Lord, there are three other
18 recommendations I want to put to you, if I might.
19 Our thirteenth recommendation asks specifically that
20 you put a greater emphasis, or a considerable emphasis,
21 on our export trade, and to that end we are hopeful
22 that in your report you can suggest that more
23 effective steps be taken relating to tax incentives,
24 export credit guarantees, and other methods which can
25 stimulate exports. Our view is that whilst exports
26 are talked about in many circles, perhaps they are
27 not sufficiently understood and that we have a very
28 long way to go if we are to obtain what is essential
29 in this country, namely, a balance of our international
30 payments. As a part of this, My Lord, we are asking
the Royal Commission to further recommend steps which



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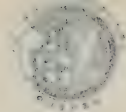
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Toronto, Ontario

- 7046 -

1 might be taken by the Federal Government to stimulate
2 companies in Canada to manufacture in Canada goods
3 which are now being imported into Canada in very large
4 quantities.

5 It is arguable what importance export business
6 of a country has as a percentage of its national
7 income as it develops, but we believe that it is
8 very important. We believe it is not only important
9 to hold the markets we have, but also to expand them.



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the gap in the public accountancy in the
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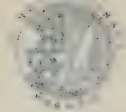
- 7047 -

1 I think it is quite clear that a great deal of the
2 domestic demand for domestic production has been
3 stimulated and is maintained because of consumer
4 credit.

5 We believe that we are approaching an
6 era in international trade where the same thing is true;
7 ^{been} that we have/living in an era of untied international
8 commercial relationship, and ~~are now entering~~ into a new
9 field, entirely new, and that until its significance
10 is thoroughly grasped, we cannot undertake, I do not
11 think, nationally policies which will grapple
12 with the export problems we have. That is to say,
13 we are entering a period now where credit and the
14 product go together.

15 Now, private industry is able itself,
16 perhaps in some of the primary exports, to handle
17 credit problems until you come to deal with some
18 of the countries dominated by the communist regime.
19 We cannot overlook this either, because one-third
20 of the world's nations, people, populations and their
21 capacities are dominated in this way. Today credit
22 is becoming a condition of sale. We are hoping
23 that you may find ways to recommend how private
24 companies can pool their risks and pool their resources
25 to offer credit.

26 We are also hoping that you can suggest
27 ways and means in which the federal government can
28 induce private companies to give export credit. But
29 we believe that even if these two are brought about --
30 namely, private companies pooling their resources



I think it is quite clear that a great deal of the domestic demand for domestic production has been stimulated and is maintained because of consumer credit.

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We are also hoping that you can suggest ways and means in which the federal government can induce private companies to give export credit. But we believe that even if these two are brought about -- namely, private companies pooling their resources



1 to give export credit, and the federal government
2 offering inducements to private companies to provide
3 export credit -- there will still need to be an alternative
4 to these.

5 In this connection I might say, Mr. Chairman,
6 that it will be necessary, we believe, that some
7 special consideration be given to the export problems
8 of small businesses. They are small businesses.
9 They deal in small orders, of an order of under
10 \$100,000, and these are difficult for them to deal
11 with. I want, if I may, in concluding this one point,
12 to say this, My Lord, that exports cannot be turned
13 on and turned off. And exports can suffer very
14 heavily at the hands of an axe, being hewn away in
15 the interest of tight money. It takes a long time
16 to develop export markets, and they may be destroyed
17 through lack of service, lack of credit, lack of
18 deliveries very quickly. This is why we advocate
19 to you that selective money control and greater
20 flexibility are needed in our economy if we are going
21 to cope with our export problem.

22 The fourteenth recommendation that we
23 make to you, generally speaking, relates to foreign
24 investment in Canada. We hope that you will give
25 special emphasis to foreign investment in Canada.
26 We hope that you will clarify its advantages and its
27 disadvantages. We hope that you will analyse what
28 some of the future needs of this country may well
29 be in relation to foreign investment. Because we
30 believe that the development of this country is going



to give export credit, and we have been offering inducements to private companies to provide export credit — which will still have to be done to these.

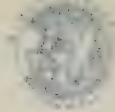
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1 to depend upon foreign investment in the future. We
2 believe that the stability of the Canadian dollar
3 will depend in part upon foreign investment. We
4 are hoping that you will set straight the record
5 in relation to the advantages and disadvantages of
6 foreign investment. And we hope above all things
7 that you can urge the federal government to state
8 a long-term policy in relation to foreign investment
9 in Canada. One day it is welcomed and one day it
10 is damned. This is not something which we think is
11 in the best interests of the development of this
12 country.

13 We have set forth in our brief an
14 enlargement of this problem, but it is gilding the
15 lily to discuss it further with you, other than to
16 say that as we advance into this decade and into
17 the balance of this century, so much of it will
18 depend upon a very competitive world market and our
19 capacity to meet it. We believe that we are going
20 to need a considerable amount of foreign investment
21 in this country, and we think that it is worthwhile
22 that this is so. We wonder whether Your Lordship
23 and his colleagues would feel it wise to point out
24 in your report that foreign investment, in terms of
25 bonds of municipal, provincial and federal govern-
26 ments, gives no control to the foreigner; whereas
27 investment in equity stocks does do so, and it may
28 be the greatest accolade the country could ever hope
29 for is to have foreigners prepared to finance the
30 education and health of our people by buying debentures



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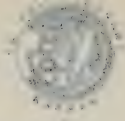


1 from our governments, from which educational and health
2 facilities are constructed and carried on.

3 Our fifteenth recommendation is a simple
4 one, and I think it is inherent from what the Prime
5 Minister has said. We are recommending the present
6 withholding tax on provincial and municipal bonds be
7 abolished.

8 Now, I want to thank Your Lordship for
9 your indulgence in hearing me. I have been longer than
10 I had intended to be, but we believe very sincerely
11 in the programmes which we have put to you. We could
12 have outlined the type of background and functioning
13 of the financial and monetary system in Ontario.
14 We do know that you have carried on extensive studies
15 in our department and that you have done much research
16 in this field. Therefore, we have tried to limit
17 our observations to general observations, which we
18 hope will be helpful in the development evenly of this
19 country as a whole.

20 I have with me on my far right Mr. Hickey,
21 who represents the Department of Municipal Affairs.
22 Next to him is Mr. Brown, the Deputy Treasurer of
23 the province of Ontario. Then there is the Treasurer,
24 Mr. Allan. Of course, the Prime Minister is on my
25 immediate right. On my left is Mr. Clarkson, Deputy
26 Minister of Economics and Development. Mr. Stevenson
27 is next to him, and he is the Director of ^{the} Economics Branch
28 in the Department. Then there is Professor Triantis,
29 who has given us very valuable support in the preparation
30 of our submission; and Mr. Richmond is the Assistant



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is next to him, and he is the Director of Economics Branch

in the Department. Then there is Professor Trites,

who has given us very valuable support in the preparation

of our submission; and Mr. Richmond is the Assistant



1 Director of the Economics Branch in our Department.

2 We are very anxious now, if we can, to
3 assist you in any way by answering any questions which
4 we may be capable of answering. I would just close
5 by saying that the facilities of our Department, all
6 of them, are open to your staff, and if there is anything
7 at any time later on that we can provide, we are
8 most anxious to do so.

9 THE CHAIRMAN: Thank you very much,
10 Mr. Macaulay. Are there any further statements?

11 PREMIER ROBARTS: No, sir.

12 THE CHAIRMAN: Then we will proceed with
13 the discussion. Mr. Gibson?

14 COMMISSIONER GIBSON: Mr. Chairman, like
15 the other Commissioners I find the brief of the Ontario
16 government very interesting; and, in addition, the
17 remarks of the Prime Minister and Mr. Macaulay have
18 done quite a bit to bring it into focus and to put
19 emphasis where they particularly wish to put emphasis.

20 I should like to start by asking a
21 few questions about the opening section of your brief,
22 and that is the section dealing with your goals with
23 regard to economic and financial policies. You list
24 these goals roughly as follows. The first and prime
25 one is a satisfactory rate of economic growth. Then
26 you list full employment, stability of income, equitable
27 distribution of the national product. Then as rather
28 secondary conditions to the obtaining of these
29 objectives, you list stability of prices, economic
30 flexibility, and a reasonably balanced international



Director of the Economic Branch in our Department.

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THE CHAIRMAN: Thank you very much.

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Nethercut & Young

Toronto, Ontario

7052 -

1 economic trade position. I take it that these are
2 your views of the appropriate goals for economic and
3 financial policy. Would you say that any of them
4 were particularly the goals of monetary policy, or
5 would you make any distinction? I do not know to
6 whom I should address the questions.

7 MR. MACAULAY: I think we will all take
8 a whack at it, if we may do that.

9 MR. CLARKSON: Mr. Chairman, of course
10 we have gone behind in this question, I think, the
11 matter of monetary or fiscal policy in the preparation
12 of this, getting right back to the fundamental things
13 we should be shooting at. We felt that in this case
14 we should state these as a prerequisite of everything
15 else. In answer to your question, I do not think it
16 does tie in specifically with monetary and fiscal
17 policy, but it should be behind it.

18 COMMISSIONER GIBSON: You would not go
19 along with the view which we have heard from certain
20 European experts in this matter, that price stability
21 ought to be the particular objective of monetary
22 policy?

23 MR. CLARKSON: I think Mr. Stevenson
24 may help here.

25 MR. STEVENSON: I should like to say that while
26 the goals we have listed refer to economic
27 and financial policy generally, the question of
28 prices, of course, comes particularly within the
29 purview of monetary policy.
30



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1 Also, I think the purpose of this brief
2 was that monetary policy, through its action in the
3 monetary system, would support the general goals of
4 the economy and of economic policy, and that price stability
5 is naturally the goal of the monetary system and of
6 monetary policy.

7 COMMISSIONER GIBSON: Would you think, in
8 thinking of monetary policy as such, as a branch of general
9 economic policy, that price stability would be one of
10 its prime objectives?

11 MR. STEVENSON: Yes, in so far as it fitted
12 into the over-all goal of our economic system.

13 COMMISSIONER GIBSON: Well now, in looking
14 at economic growth, your Mr. Macaulay has said with
15 respect to this idea that you would think in terms
16 of a 4 to 4½ per cent increase per annum. Is that
17 growth in the national output of goods and services,
18 or is it per capita output of goods and services
19 that you are thinking of?

20 MR. MACAULAY: Actually, we were thinking
21 when we stated that -- and if I may, my father always
22 says, "I wish whenever I ask you a question you wouldn't
23 give me a speech", but my problem is that I have to
24 go back on this. In Ontario we have 60,000 people
25 coming on to the labour force each year. In Ontario
26 we believe that it will not be possible for us to
27 handle these people in our economy unless we have
28 a rate of provincial product growth of some 4 to 4½
29 per cent. We are talking in terms of constant
30 dollars and in terms of the Gross National Product.



THE HOUSE OF COMMONS

MONDAY, MAY 1, 1961

THE HON. MEMBER FOR ST. JOHN'S

and

the economy and of economic policy, that price stability

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COMMISSIONER GILSON: Would you think in

thinking of monetary policy as well as a person of general

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the main objectives?

MR. STANBROOK: Yes, in so far as it is related

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MR. STANBROOK: I am thinking of per capita output.

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go back on this. In Ontario we have 60,000 people

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dollars and in terms of the gross national product.



1 COMMISSIONER GIBSON: But you are talking
2 in terms of the use of the growing population; you
3 say it is the actual annual constant growth?

4 MR. MACAULAY: Yes.

5 COMMISSIONER GIBSON: Not the growth
6 per capita?

7 MR. MACAULAY: Yes.

8 COMMISSIONER GIBSON: Well now, when you
9 think of growth as a concept, you are just thinking
10 of the sort of average increase and the output of
11 all goods and services, or do you put particular
12 emphasis on production of goods? You have said, for
13 example, that you do put particular emphasis on the
14 production of educational services, which is good,
15 that is a service that is in your economy, but it
16 is one of the problems in looking at growth to know
17 just what one means by it. Is it just whatever
18 basket of production comes out of the machine or do
19 you put emphasis on particular aspects of it?

20 MR. MACAULAY: Well, it is very difficult,
21 sir, as you well know to have any yardstick by which
22 you measure these things. I think they are a pretty
23 rough thing anyhow, and the Gross National Product
24 and the income are two yardsticks by which conventionally
25 one measures development normally, and I don't know
26 whether I am answering your question when I say this,
27 but we put particular emphasis upon the growth
28 of secondary industry; we put particular emphasis
29 upon the human capital to service this secondary
30 industry, because one of our problems is the question



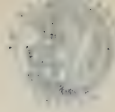


1 of the employment usefully of our people as an aid
2 to the development of our state, and that if their
3 employment is a very large factor to us and we conclude
4 that in the primary industries, such as pulp and paper,
5 mining, agriculture, we simply cannot find a place
6 for these people who are coming on to our labour market,
7 much less those who are now unemployed, therefore
8 it is the secondary industry which we are looking
9 to and it may be that the greatest emphasis will be
10 either in that or in those things which are essential
11 to service that.

12 MR. STEVENSON: And I might add one thing;
13 I think in the Department we have been considering
14 that it is perhaps in the field of secondary manufacturing
15 that in the next few years the greatest problems
16 will be faced because of changing patterns, and
17 therefore particular emphasis will have to be laid
18 so that secondary manufacturing can adjust to this
19 situation, and it may require greater than
20 proportionate investment.

21 MR. MACAULALY: This may not be directly
22 on your point but, as I understand it, we are able
23 to sort of discuss our way around these problems,
24 and this is why I mentioned in relation to a national
25 research institute that we are greatly concerned,
26 quite naturally; we are not taking an insular
27 point of view about the Canadian proposal in relation
28 to trade.

29 We have in our province, for example, some
30 5,000 manufacturing concerns that are subsidiaries



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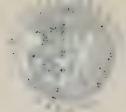
We have in our province, for example, some
5,000 manufacturing concerns that are subsidised



1 of United States parent companies, and this influences
2 our capacity to export for reasons which we don't
3 need to go into here, but it also is quite clear
4 that many of these companies have established in
5 Ontario so that they can get over the hurdle of
6 tariffs and to obtain the British preference. If the
7 European common market embraces Great Britain, then
8 one of these reasons goes and ^{if} the tariff goes, we
9 are faced with some very serious problems; not ones
10 which we are not prepared to face, because I think
11 this is the trend today, but nevertheless this is
12 true.

13 COMMISSIONER GIBSON: This is the sort of
14 comment that I was hoping you would give. Growth
15 as a general idea can be pretty vague unless we have
16 some idea of the kind of economy you are looking for.

17 MR. MACAULAY: Sir, you say that we have
18 put emphasis on the investment in human capital,
19 and this is correct, and this is why we have mentioned
20 to you the importance of training and re-training.
21 We were trying to get the best out of our money
22 in this field and to find out how much more will be
23 needed, and this would apply in the field of education
24 and training and re-training, and the kind of human
25 investment that is necessary to keep our people in
26 good physical condition, mentally and physically,
27 so that they can do a good day's work, and these are
28 the things that will be as essential as creating
29 new secondary opportunities, and these things will
30 go together. You are asking us in depth, perhaps,



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so that they can do a good day's work; and these are
the things that will be as essential as creating
secondary opportunities, and these things will



1 something which we should have been prepared to give
2 you something more definite on.

3 COMMISSIONER GIBSON: Well, really, in my
4 mind growth is a means to an end, too.

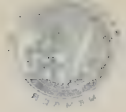
5 MR. MACAULAY: Yes.

6 COMMISSIONER GIBSON: And I suppose the
7 end is broader opportunities for the people living in
8 a particular area and a high level of employment and
9 greater welfare and standard of living, and so on,
10 but you would say that the growth was the best way
11 to emphasize and achieve these kinds of ends?

12 MR. MACAULAY: Yes, and I think we are
13 suggesting that while you can have stability of prices
14 in a non-growing community, and you might even have
15 an even distribution of opportunity and income and
16 production in a stable economy, that is, a stationary
17 economy, but there are some things, however, you
18 cannot have with a stationary economy; you can't
19 give employment with a stationary economy to a growing
20 population so, in short, what we have said is this,
21 that all of the objectives which we are seeking,
22 in our opinion, depend partly upon -- and some rest
23 solely upon -- the rate of growth.

24 COMMISSIONER GIBSON: You see the
25 objectives, which is also a means to an end of stable
26 prices, as being seriously or frequently in conflict
27 with the objective of growth?

28 MR. MACAULAY: There again, you see,
29 it depends on your emphasis. For a person who is 65
30 and living on a fixed pension, stable prices may be



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COMMISSIONER GIBSON: Well, really, in my

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1 right at the top of the list, but somebody who is
2 21 and just coming out into the business world and
3 with his future all in front of him,
4 it seems to me that that person isn't
5 as concerned about rising prices. It depends to
6 a large degree upon whose ox is being gored, which
7 is the phrase.

8 COMMISSIONER GIBSON: I appreciate
9 that, but many people take stable prices much more
10 seriously than others. Do you think that this
11 objective is seriously in conflict with
12 the objective of a satisfactory rate of growth?

13 MR. MACAULAY: I don't know what you
14 mean by "in conflict"; are you saying it is hard
15 to obtain them both?

16 COMMISSIONER GIBSON: I am asking
17 you what you think about that?

18 MR. STEVENSON: We do say in the
19 brief that on occasion growth cannot be obtained without
20 the sacrifice of some loss in stability of prices,
21 and that if as you say growth is perhaps the supreme
22 goal in most situations, perhaps the situation Canada
23 might find itself in if it were fairly stagnant and
24 there was not too much prospect of increasing job
25 opportunities, then it may have to be at the sacrifice
26 of some price increase that we would obtain this
27 rate of growth.

28 COMMISSIONER GIBSON: Well now, this
29 would be in a certain set of circumstances where possibly
30 there is a very strong external demand or prices are



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of some price increase that we would obtain this
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COMMISSIONER GIBSON: Well now, this
would be in a certain set of circumstances where possibly
there is a very strong external demand or pressure



1 up a bit, but taking a longer view, do you think
2 there is very much conflict in these objectives? There
3 will be times when prices go up and times when they
4 are a bit weak, as they have been in the last few
5 years. What is a tolerable long-range increase in
6 the price level to be acceptable and consistent with
7 your goals of growth? Do you think any long-range
8 increase is tolerable?

9 MR. MACAULAY: I think some is tolerable
10 -- and we have mentioned this -- we think the stability
11 of prices is something that is going to come about
12 or not come about as the result of growth, but I don't
13 think we would ever sacrifice it, and furthermore,
14 I think ---

15 COMMISSIONER GIBSON: Never sacrifice
16 growth for stability of prices?

17 MR. MACAULAY: No.

18 COMMISSIONER GIBSON: And you wouldn't
19 put too much emphasis on it?

20 MR. MACAULAY: Frankly, my own view
21 would be that.

22 COMMISSIONER GIBSON: I see.

23 MR. MACAULAY: Have I upset the brief?
24 We have quite a democratic way of preparing this
25 brief.

26 COMMISSIONER BROWN: I wonder if I
27 might ask a question on this. In your objective of
28 a stable rate of growth, a satisfactory rate of growth,
29 you will require stable investment, and this is going
30 to be an investment in fixed income securities for both

1 in a long view, do you think

2 are a bit weak, as they have been in the past few
3 years. What is a tolerable long-range increase in
4 the price level to be acceptable and consistent with
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8 -- and we have mentioned this -- we think the stability
9 of prices is something that is going to come about
10 or not come about as the result of growth, but I don't
11 think we would even associate it, and furthermore,
12 I think --

13 COMMISSIONER GIBSON: Never associate
14 growth for stability of prices?
15 MR. MACAULAY: No.

16 COMMISSIONER GIBSON: And you wouldn't
17 put too much emphasis on it?

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19 would be that.

20 COMMISSIONER GIBSON: I see.
21 MR. MACAULAY: Have I upset the picture?

22 We have quite a democratic way of propagating this
23 belief.

24 COMMISSIONER BROWN: I wonder if I

25 might ask a question on this. Is your objective of
26 a stable rate of growth, a satisfactory rate of growth,

27 to be an investment in fixed income securities for people



1 provincial and municipalities. Now, you are prepared
2 to sacrifice stable prices, but how will this affect
3 your ability to attract that type of investment?

4 MR. MACAULAY: I don't think we are talking,
5 Mr. Brown, of runaway prices; I think Mr. Gibson
6 was trying to come down to the point, or got us to
7 the basic point which we put ahead of the other, and
8 I think we consider this important in that we have
9 emphasized the attraction of foreign capital into
10 this country. I think that it is obviously very
11 important to the people who hold bonds and who buy them
12 that they will be very interested in relative returns
13 on their investment as well as the price of goods
14 which they buy. I don't know that I can say to you
15 how does the one affect the other. I suppose one
16 is a depressive of the other.

17 COMMISSIONER BROWN: Which is which?

18 MR. MACAULAY: Well, I would think if prices
19 got out of hand -- as in some of the banana republics --
20 I would think the tendency would be to discourage
21 foreign investment; to put it in a sock, to bury
22 it in the back garden, get into gems, diamonds and
23 nicotine, so obviously if we carry it to an extreme
24 this may be a bad thing for your state, but we are
25 not talking in terms of extremes.

26 COMMISSIONER BROWN: Mr. Gibson was trying
27 to get at what terms you were thinking in.

28 MR. MACAULAY: We are trying to get away
29 from him!

30 COMMISSIONER GIBSON: We have had it suggested



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MR. MACAULAY: Well, which is which?

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aluminum, so obviously if we carry it to an extreme
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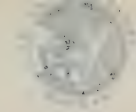


1 to us that declining prices were definitely in conflict
2 with a reasonably long range rate of growth, but we
3 have also had it suggested, and strongly, that prices
4 advancing more than slightly over a long period are
5 also in conflict with a satisfactory rate of growth,
6 so maybe the thing is not by any means clear, and
7 there are a lot of different opinions which we have
8 heard.

9 MR. MACAULAY: Don't you think it would
10 depend on how other things advanced? That is to say,
11 if your Gross National Product grew at the expense
12 of an increase in price, then you really perhaps
13 have had no real increase in the Gross National
14 Product, and that is one of the problems, to sort
15 this out.

16 The first time I ever heard of a "constant
17 dollar" is when His Lordship started talking about
18 it about eight years ago. I was going to ask him
19 if he wouldn't mind lending me a constant dollar,
20 because there just are not any around, but a lot will
21 depend on whether it will take self-sacrifice or growth
22 to obtain it and, another thing, rises in prices I
23 don't think are noticeable if everybody else's prices
24 are rising; that is to say, in other jurisdictions,
25 so whether you are talking about an absolute rise
26 in prices or a comparative rise in prices in a nation
27 only, it is another matter. What about you, Professor?

28 PROFESSOR TRIANTIS: If I may come into
29 the discussion, I don't say that what I mean to say is
30 academically proven or can be proven, but if you look



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MR. MACAULAY: Don't you think it would
depend on how other things advanced? That is to say,
if your gross national product grew at the expense
of an increase in prices, then you would probably
have had no real increase in the gross national
product, and that is one of the problems, to sort
this out.

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PROFESSOR THURGOOD: If I may come in to
the discussion, I don't say that what I mean to say is
over or can be proved, but if you look



1 at the statistics of European countries since the
2 end of the war and you examine their rate of growth,
3 number one; the percentage of unemployment, number two
4 and the yearly increase in prices, number three, and
5 you say that these are your three goals which may
6 be expressed numerically, you will find that the
7 countries which are supposed to have done well are the
8 countries where the rate of growth, the growth in
9 the over-all product, is greater than the sum of
10 the rate of unemployment plus the rate of increase
11 in price, so if we could get something like $4\frac{1}{2}$
12 per cent growth and have a 3 per cent unemployment
13 and a one per cent rise in prices, then I would say
14 we are doing well.

15 You will find countries like Japan and
16 Germany have done much better; that is, the rate
17 of growth has doubled the sum of the rate of unemployment
18 and the increase in prices, and you still find
19 countries in North America doing worse. This cannot
20 be proven academically, but it could be national.

21 COMMISSIONER GIBSON: It depends on the
22 periods. In the period of the last few years what
23 you said would be so, but if you took from the end
24 of the war you would see a better picture in North
25 America?

26 PROFESSOR TRIANTIS: In the 1950's that
27 is the picture. However, as far as Canada is concerned,
28 I would say that if you go to the market and you come
29 back with an empty basket, you are getting worried
30 as to what should be in that basket and that is the

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and a one per cent rise in prices, then I would say
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Germany have done much better; that is, the rate
of growth has exceeded the sum of the rate of unemployment
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CONCLUSION: It depends on the
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PROFESSOR THOMAS: In the 1930-40 period
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back with an empty basket, you are getting worried
as to what should be in that basket and that is the



1 state in North America today. If we have no growth,
2 we are worried about growth. We are prepared to look
3 at prices, but it is a secondary consideration, and
4 this applies also to the content of your growth.
5 I don't know whether that represents the view or
6 not. It is what this 4½ per cent should be, whether
7 education, or what.

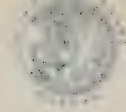
8 MR. MACAULAY: That gets back to Mr. Gibson's
9 point.

10 PROFESSOR TRIANTIS: I should say that this
11 depends on what growth is leading to. If it is leading
12 to difficulties in the international field, the
13 aim of your growth should be more education, more
14 science, more technology, and so on. If we are sure
15 about our ability to defend ourselves, growth is a
16 matter of having good times, but it all depends on
17 what it is we want.

18 COMMISSIONER GIBSON: I think that Mr.
19 Macaulay put a little more specific objective on it
20 from the Ontario point of view, and the emphasis
21 of secondary industry would fit into this. I don't
22 know whether we should ask you to express a view on
23 the international situation.

24 MR. MACAULAY: We are feeling sufficiently
25 inadequate on the subject which we are asked to
26 express ourselves on without getting into that!

27 COMMISSIONER GIBSON: One of the other
28 objectives which I found very interesting, when this
29 was put on the secondary list, was the financial
30 system that is conducive to a flexible economy. I



we are worried about growth. We are prepared to look at prices, but it is a secondary consideration, and this applies also to the context of your growth. I don't know whether that represents the view or not. It is what this 4% per cent should be, whether

point.

PROFESSOR TRIANTIS: I should say that this depends on what growth is leading to. If it is leading to difficulties in the international field, the aim of your growth should be more education, more science, more technology, and so on. If we are sure about our ability to defend ourselves, growth is a matter of having good times, but it all depends on what it is we want.

SECONDARY GROWTH: I think that is basically put a little more specific objective on it from the Ontario point of view, and the emphasis of secondary industry would fit into that. I don't know whether we should ask you to express a view on

MRS. MACAULAY: We are feeling sufficiently inadequate on the subject which we are asked to express ourselves on without getting into that. COMMISSIONER GIBSON: One of the other objectives which I found very interesting, when this was put on the secondary list, was a financial system that is conducive to a flexible economy. I



1 wonder if you would develop this a bit? Should there
2 be more changes in interest rates?

3 MR. MACAULAY: Well, I think that that is
4 contained -- the juxtaposition of this is more by
5 misadventure than anything. I think we have felt
6 that the aegis by which these things would be brought
7 out would be a flexible economy; I don't think we
8 are putting that sort of last and least. Isn't that
9 so?

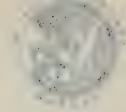
10 COMMISSIONER GIBSON: I wasn't suggesting
11 that; I wondered what your thinking was, how you
12 think the financial system could be improved and
13 made more conducive to the economy?

14 MR. MACAULAY: I would say that indirectly
15 we pointed out to you that the blanket application
16 of tight money, for example, is destructive in the
17 export business, whereas it might be a very good thing
18 in certain other aspects.

19 We think that the application of tight
20 money, as a policy, hurts some people and doesn't hurt
21 perhaps others, and yet that is why we asked you --
22 urged you, rather -- to find who are the bad boys
23 in the house that cause the inflationary pressures,
24 so that we might give them a pat on the wrist, as
25 opposed to just sort of saying, as my parents used
26 to say, "I am tired now; we will all go to bed."

27 COMMISSIONER GIBSON: The system just works
28 that way?

29 MR. MACAULAY: It may be that you are
30 correct, it may be that; I am certainly not going to



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out would be a flexible company; I don't believe we
are getting that sort of fact and fact. I think that
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think the financial system could be improved and
made more conducive to the economy?

MR. KACADIAN: I would say that indirectly
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of tight money, for example, its derivative in the
export business, whereas it might be a very good thing
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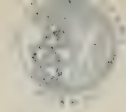
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1 delineate it for you.

2 COMMISSIONER GIBSON: Well, on this question
3 you mentioned tight money, and your argument is quite
4 correct, that tight money affects some of the smaller
5 operators who find it difficult to get ahead the way
6 they otherwise would have, but on the other hand, it
7 has frequently been argued that tight money tends
8 to cut costs down and maintain your export position.
9 There is a conflict here.



Statement is for you.

You mentioned tight money, and your argument is quite correct, that tight money affects some of the smaller operators who find it difficult to get ahead the way they otherwise would have, but on the other hand, it has frequently been argued that tight money tends to cut costs down and maintain your export position. There is a conflict here.



1 MR. MACAULAY: When you say that it
2 has been argued, this assumes you are talking about
3 a past record. I was trying to suggest to you that
4 we were emerging into a new era of tied transactions
5 in the export business where credit is an associate
6 characteristic of the transaction. If that is so,
7 tight money can, and I suspect will, have a much
8 more disadvantageous effect in the future than it
9 has had in the past on the export business.

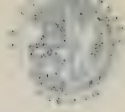
10 MR. STEVENSON: I think particularly
11 in Ontario now the emphasis is on trying to get some
12 small manufacturers particularly, who may not have
13 been in the export field before, to enter this new
14 field. These are firms which may have much more
15 trouble getting money, particularly when money is
16 rather tight, and therefore their attempts at holding
17 or breaking into the new market may be more seriously
18 affected than a larger firm.

19 COMMISSIONER GIBSON: I would like to ask
20 you about your recommendation that there be an
21 announcement of goals: this would be presumably by
22 some organ of the federal government, I take it from
23 time to time, of the goals of economic policy and
24 the particular mix that suited circumstances; is that
25 a fair statement?

26 MR. MACAULAY: Yes, sir.

27 COMMISSIONER GIBSON: Would you say a
28 little more about this? Would you envisage this
29 being done once a year, or whenever it was appropriate?

30 MR. MACAULAY: "Whenever it is appropriate"



MR. MACAULAY: When you say that it

has been argued, this assumes you are talking about a past record. I was trying to suggest to you that we were emerging into a new era of tied transactions in the export business where credit is an essential characteristic of the transaction. If that is so, tight money can, and I suspect will, have a much more disadvantageous effect in the future than it has had in the past on the export business.

MR. STEVENSON: I think particularly

in Ontario now the emphasis is on trying to get some small manufacturers particularly, who may not have been in the export field before, to enter this new field. These are firms which may have much more trouble getting money, particularly when money is rather tight, and therefore their attempts at holding on breaking into the new market may be more seriously affected than a larger firm.

COMMISSIONER GIBSON: I would like to ask

you about your recommendation that there be an announcement of goals: this would be presumably by some organ of the federal government, I take it from time to time, of the goals of economic policy and the particular mix that suited circumstances; is that a fair statement?

MR. MACAULAY: Yes, sir.

COMMISSIONER GIBSON: Would you say a

little more about that? Would you envisage this being done once a year, or whenever it was appropriate? MR. MACAULAY: "Whenever it is appropriate."



1 is a matter of judgment. This is obvious, I think.
2 But, I would not want to tie it down to every year.
3 Frankly, what we had in mind was something on a longer
4 range basis than that. We are involved in the province,
5 under the Prime Minister's direction, in bringing
6 about a number of results: we are hoping to do some-
7 thing effective in the field of import replacements,
8 something in the field of greater exports, decentralization,
9 the creation of new industries, and so on. We know
10 from having worked as hard as we have in the past
11 nine months that it is only now starting to show.
12 Therefore, I think it is fair to say that any kind
13 of pronouncement would be on a long range basis, and
14 I think we had in mind, although I hate to use it,
15 a five year plan sort of approach.

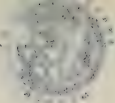
16 COMMISSIONER GIBSON: This would be an
17 announcement of the basic goals which you outline in
18 the brief of national economic policy, and the
19 emphasis which was to be put on each?

20 MR. MACAULAY: Yes, sir.

21 COMMISSIONER GIBSON: I can understand
22 a general statement of this kind, but as soon as you
23 start getting down to particulars, would you say, for
24 example, we should put up with a certain amount of
25 increase of price every year if the circumstances
26 suggested this, or would you be silent on the subject?

27 MR. MACAULAY: I think I would be silent
28 on it, myself.

29 PREMIER ROBERTS: I think the idea is
30 that there would be a basic goal which everybody would



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Frankly, what we had in mind was something on a longer range basis than that. We are involved in the province under the Prime Minister's direction, in bringing about a number of results; we are hoping to do something effective in the field of import regulation, something in the field of greater exports, decentralization, the creation of new industries, and so on. We have from having worked as hard as we have in the past nine months that it is only now starting to show. I think we had in mind, although I hate to use it, a five year plan sort of approach.

COMMISSIONER GIBSON: This would be an announcement of the basic goals which you outline in the brief of national economic policy, and the emphasis which was to be put on each?

MR. MACALUSAY: Yes, sir.

COMMISSIONER GIBSON: I can understand a general statement of this kind, but as soon as you start getting down to particulars, would you say, for example, we should put up with a certain amount of increase of price every year if the circumstances suggested this, or would you be silent on the subject?

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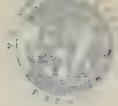
1 understand we were getting to. I think this really is
2 the concept of the idea. Of course, the degree of
3 particularity with which you can do that, and the
4 frequency with which you can make statements -- because
5 frequency of statements would indicate alteration of
6 objective -- there would be no purpose in making any
7 statement unless you had, in fact, changed your
8 objectives. I think the basic concept is that we
9 would know what we were striving for so that the efforts
10 of all could come together in a common purpose. With
11 that in mind it would have to be reasonably broad and
12 could not be revised every six months.

13 COMMISSIONER GIBSON: This would be a long-
14 range economic programme in which you name a certain
15 rate of growth or a certain balance of payments -- is
16 that the kind of thing?

17 MR. MACAULAY: I think so.

18 PREMIER ROBARTS: Some you could put in
19 the language that economists might understand, and
20 some you could put in the language that businessmen
21 might understand, and some you might put in the language
22 that people generally would understand. So, there
23 would be some idea of what, in fact, we were attempting
24 to do.

25 MR. MACAULAY: We feel, and it may be that
26 price increase -- although I did not have it in mind
27 as one of the sacrifices -- I think the burden of our
28 argument is that the best organ of democracy is a well-
29 informed public. We believe, so long as people in
30 high places are debating amongst themselves as to what



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1 we are trying to do and what route we should take
2 to do it is unsettling to a public which otherwise
3 might be prepared to make the necessary sacrifices.
4 I do not say necessarily high prices: let me give
5 you an example, if I may be so bold: I think the
6 public of Canada accepted what was called the austerity
7 programme with very good grace. Whether "grace" is
8 the right word, I don't know. Let me say that it
9 had a high degree of acceptance. People felt, I think,
10 that it was necessary and nobody had ever told them
11 this before. If they had been told before, I think
12 they would have done it before. I think they would
13 make even greater sacrifices. In what area, I don't
14 know just at the moment that I would be prepared to say,
15 but I have a great belief in the human nature and
16 the well-being of our people and I am confident
17 our people will make the necessary sacrifices, but
18 they have got to be taken into the confidence of those
19 leading the country, and they have to be convinced
20 that those leading the country know where they are
21 going. I don't know exactly what statement we had
22 in mind, but we sort of had in mind the kind of
23 signals that are played in a rugby game. There would
24 be chaos if everybody had a different play, and we
25 think this is about the way things have been going.

26 --- Short Recess.
27

28 COMMISSIONER GIBSON: Mr. Chairman, I
29 would like to ask one further question in this first
30 section of the Ontario brief. It relates to the



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--- Short Report ---
I like to ask one further question in this line
of the Ontario trial. It refers to the



1 relations between the federal government and the central
2 bank.

3 You make the statement very definitely
4 that the relationships should be clarified by the
5 statute that the decision on the combination of goals
6 of monetary and related policies rest exclusively upon
7 the elected representatives of the people of Canada.
8 How would you go about this? I understand what you
9 are saying, but how should these relations be outlined?
10 Would you think of changing the Act to try and define
11 more clearly the area in which the central bank works?
12 Would you think of giving the government power to
13 direct the central bank on disagreements?

14 MR. MACAULAY: Well, for my part, to
15 start it, Mr. Gibson, our view was that we could --
16 and I don't think we have actually worked out any
17 phraseology; but I don't think it is beyond the
18 possibility that we could make a run at it -- but our
19 view was that there has been in the past some indefinite-
20 ness as to the relationship between the Bank and the
21 Minister of Finance, and we think that perhaps this
22 is not in the best interests of the stability of the
23 financial community. To that extent we felt that it
24 could be established either in the preamble of the
25 Bank of Canada Act or in one of the substantive sections
26 of the Act, that it is the responsibility of the Bank
27 to report to and through the Minister of Finance, to
28 the House of Commons or to the government -- or however
29 it is phrased -- and whatever phraseology is necessary
30 to make it quite clear that the Bank of Canada is an

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1 agent in more than just debt management of the govern-
2 ment.

3 COMMISSIONER GIBSON: You are saying
4 specifically that the Bank of Canada should be an
5 agent of the government?

6 MR. MACAULAY: I don't know that "agent" --
7 pardon?

8 COMMISSIONER GIBSON: ... of the govern-
9 ment: of course, it is a creature of parliament.

10 MR. MACAULAY: Yes.

11 COMMISSIONER GIBSON: At least, parliament
12 set it up and can change it if it wants to. Are you
13 saying the Bank of Canada should be part of the
14 governmental set up, or should it have a certain
15 degree of independence?

16 MR. MACAULAY: Well, what is a fellow
17 who has independence but who has to report to somebody?
18 I don't know what kind of independence he has. I
19 think they should have a kind of independence, but
20 the difficulty is in defining "independence". As
21 a rule you end up with the fellow not having an awful
22 lot of independence, or he is completely independent.
23 I think what we are trying to strive for is that it
24 should be perfectly clear when the federal government
25 sets goals and objectives on a five or ten year basis
26 that you balance international payments, to obtain a
27 $4\frac{1}{2}$ per cent rate of growth, et cetera, et cetera, and
28 every other effort that is made by the government,
29 monetary, fiscally, budgetwise, and so on, is bent
30 in that direction. This means if you leave the Bank

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1 of Canada to pursue its own general policies you may
2 be operating at cross purposes. I don't know the
3 technical arrangement. What we were looking at was
4 in terms of the net result rather than the aegis
5 by which it would be accomplished.

6 COMMISSIONER GIBSON: There are so many
7 varieties of this, you see.

8 MR. MACAULAY: Yes, there are.

9 COMMISSIONER GIBSON: One suggestion has
10 sometimes been made that the Minister of Finance should
11 have power to direct the central bank to do certain
12 things, and this is simply a reserve power that would
13 not be used unless a fundamental difference came up.
14 You almost made me think when you started to talk
15 about this that you thought perhaps the Bank of Canada
16 could be part of the Department of Finance?

17 MR. MACAULAY: No, I don't think I would
18 want to state that, but I would not be unprepared to
19 say so if that was necessary to make sure it
20 reflected government policy in relation to long range
21 planning.

22 COMMISSIONER GIBSON: You say "in relation
23 to long range planning"; you don't think it would be
24 necessary in short run changes in government attitudes?

25 MR. MACAULAY: I am sorry, I missed that.

26 COMMISSIONER GIBSON: You say it should
27 be to do with long range government policy?

28 MR. MACAULAY: Yes, sir.

29 COMMISSIONER GIBSON: What about day-to-
30 day, week-to-week, month-to-month changes in government



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1 attitudes? Should the Bank of Canada be highly
2 responsive to that, or should it to some extent be
3 set off to the side to protect it?

4 MR. MACAULAY: We have said on page 6,
5 paragraph 21:

6 "The relation between the Bank of
7 Canada and the Government of Canada
8 must be clarified also with respect
9 to the policies used in pursuing the
10 chosen goals. Monetary, budgetary
11 and debt management policies are totally
12 interrelated as to the techniques em-
13 ployed and their effects. In view of
14 the economic, social and political
15 implications of these policies, particularly
16 with reference to economic growth and
17 employment, it would be unwise to leave
18 any doubt as to the ultimate responsibility
19 of the Government of Canada in these
20 matters."

21 I recall reading a statement of Mr.
22 Rasminsky some time ago -- perhaps you could restate
23 that, Mr. Stevenson?

24 MR. STEVENSON: I think Mr. Rasminsky's
25 statement, when he became Governor of the Bank of
26 Canada, was quite close to what we have been thinking.

27 COMMISSIONER GIBSON: To what you had
28 in mind?

29 MR. STEVENSON: Yes, except this is not,
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MR. MACAULAY: We have said on page 2,

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1 of course, in the statute.

2 COMMISSIONER GIBSON: That makes it clear
3 to us what you mean. Thank you very much. Those are
4 all the questions I have, Mr. Chairman, in this section.

5 THE CHAIRMAN: Are there any further
6 questions on this point?

7 COMMISSIONER HARROLD: In the second
8 section of the brief, "The need for more research and
9 information", I think in general it speaks pretty clearly
10 of what areas and of what you have in mind, and I
11 had thought of one or two questions, but in Mr. Macaulay's
12 addition to the material which is here presented in
13 this section he did suggest four broader areas that
14 might be the subject for study by such an independent
15 institute for economic research. I don't know that
16 I have in mind any particular questions, but I probably
17 would like to ask one question of Mr. Macaulay, and
18 that is, that in the event this national institute of
19 economic research had been set up some time ago and
20 was operating at the present time, in your first
21 suggestion of a broader issue which may be studied
22 you suggested the impact of E.E.C. on trade. Would
23 you think that a body of this kind at this stage of
24 the development of E.E.C. would be able to supply
25 information, or what kind of information or conclusions
26 or forecasts, or what could they provide to business
27 in Canada or government, or whoever it may be, at this
28 stage of the development, that may be useful?

29 MR. MACAULAY: Mr. Harrold, the reason
30 I suggested these four was that I knew if I didn't



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MR. MACAULAY: Mr. Harold, the reason

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1 suggest some you would ask me which four I might
2 suggest. So, I picked them, and I knew the next
3 thing you would ask me would be why I picked these
4 four. And, that is a perfectly fair question. Once
5 a question or problem has been delineated, it is a
6 great deal easier to deal with it than if it has not
7 been. I wonder whether in terms of exports we are
8 thrashing around trying to pitch mist with a hay fork
9 or whether, in fact, we are dealing adequately with this.
10 We have made recommendations with reference to export
11 credits; we have made recommendations with reference
12 to tax incentives, and so forth. I don't know this
13 is basically the area to answer our capacity to compete
14 effectively in E.E.C. There are certain areas in
15 E.E.C. that are quite apparent from the studies we
16 have done in our Department in which our private industry
17 in Canada is going to have a magnificent opportunity
18 to take part. It seems to us, then, if those are the
19 areas, we should try to frame, if we can, certain
20 government policies to assist us not just to compete
21 but to lead the group. Some of them relate to primary
22 products, but some relate to manufactured products.
23 This is one area.

24 I think if documentation, insurance, and
25 these things are going to become a greater or a lesser
26 problem, that perhaps it ill behooves the government
27 or somebody not to be aware of these and to be making
28 plans now. I think when the conditions of E.E.C.
29 jell and cement together it may be too late for us
30 to get into some of these fields. In short, this may



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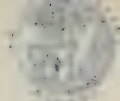


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1 not be one of the things that a national institute
2 should study.



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1 I was simply suggesting it as one. Conditions change
2 because they are still negotiating the agricultural
3 conditions of Britain's entry into E.E.C. Therefore,
4 it is very difficult to formulate a long-range policy
5 on a condition that is changing; a base that is
6 sliding around. Nevertheless, from the studies that
7 we have carried on in the Department of Economics
8 and Development, in our province, there are certain
9 opportunities; certain things that we know we can
10 do to help industries in our province which, if we
11 had not carried out, we do not think we would be aware
12 of. I wonder whether these things should not also
13 be known at the Federal level because, after all, the
14 Federal Government has trade offices all over the
15 place. It has just apparently gone into export
16 credits by lending directly to foreign
17 governments. There are many things that it maybe
18 could or should get into which would be open to it
19 if they knew what the impact was going to be on the
20 Canadian economy. I perhaps have skated around this
21 without coming directly to your question, but I think
22 that is the best I can do with it.

23 COMMISSIONER HARROLD: There are some studies
24 being made, of course, by -- I am not too sure of
25 the exact name for it -- the Canadian-American trade
26 committee. It has put out a pretty good study -- I
27 am informed it is the Canadian Trade Committee --
28 on this sort of thing. You feel that a study of this
29 kind should go further than that in this regard?

30 MR. MACAULAY: As I said, sir, I do not want



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conditions of Britain's entry into E.E.C. Therefore,
it is very difficult to formulate a long-range policy
on a condition that is changing; a base that is
sliding around. Nevertheless, from the studies that
we have carried on in the Department of Economics
and Development, in our province, there are certain
opportunities; certain things that we know we can
do to help industries in our province which, if we
had not carried out, we do not think we would be aware
of. I wonder whether these things should not also
be known at the Federal level because, after all, the
Federal Government has trade offices all over the
place. It has just apparently gone into export
credits by lending directly to foreign
governments. There are many things that it maybe
could or should get into which would be open to it
if they knew what the impact was going to be on the
Canadian economy. I perhaps have skated around this
without coming directly to your question, but I think
that as the best I can do with it.

COMMISSIONER KARNOLD: There are some studies

being made, of course, by -- I am not too sure of
the exact name for it -- the Canadian-American trade
committee. It has put out a pretty good study -- I
am informed it is the Canadian Trade Committee --
on this sort of thing. You feel that a study of this
kind should go further than that in this regard?

MR. MACALVAY: As I said, sir, I do not want



1 to tie my hat on this particular study. I just thought
2 I might suggest it as a possibility. It might be
3 rejected upon the establishment of such an institution.
4 Maybe there are others which are more important, or
5 more practicable or practical, but this is an important
6 subject and I do not think really everybody looks
7 at the European Economic Community as something quite
8 magnificent, and somehow stand back in awe of it.
9 There seems to me that there are opportunities in it
10 as well as risks, and I think it is incumbent upon
11 our industries in Canada to know more about it.

12 COMMISSIONER HARROLD: Mr. Chairman, I
13 believe that is all I have on this particular section,
14 but in view of the fact that this was assigned to
15 me I might ask one question at this stage as far as
16 the whole brief or representation is concerned, and
17 perhaps from the point of view of what is most
18 interesting to my mind, and that is that you have
19 already said that your primary interest as far as
20 your brief is concerned is in respect of secondary
21 industry, that is related to financing and banking.
22 Your brief clearly shows that this is your main
23 concern. Am I to gather from this that as far as
24 the provincial government is concerned in the field
25 of financing, that you have not the same concern for
26 primary industry and, shall we say, agriculture in
27 particular, as having any problems in the field of
28 financing at all and banking?

29 MR. MACAULAY: Well, we think ---

30 COMMISSIONER HARROLD: Excuse me. Do some



to be my part on this particular study. I just thought I might suggest it as a possibility. It might be rejected upon the establishment of such an institution. Maybe there are others which are more important, or more practicable or practical, but this is an important subject and I do not think really everybody looks at the European Economic Community as something quite magnificent, and somehow stand back in awe of it. There seems to me that there are opportunities in it as well as risks, and I think it is incumbent upon our industries in Canada to know more about it.

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believe that as all I have on this particular section, but in view of the fact that this was assigned to me I might ask one question at this stage as far as the whole brief or representation is concerned, and perhaps from the point of view of what is most interesting to my mind, and that is that you have already said that your primary interest as far as your brief is concerned is in respect of secondary industry, that is related to financing and banking. Your brief clearly shows that this is your main concern. Am I to gather from this that as far as the provincial government is concerned in the field of financing, that you have not the same concern for primary industry and, shall we say, agriculture in particular, as having any problems in the field of financing at all and banking?

MR. MACAULAY: Well, we think ---

COMMISSIONER HARROLD: Excuse me. Do you



1 of the broader headings in your opinion cover that?

2 MR. MACAULAY: I think so. I think perhaps
3 we have this under the heading of small businesses,
4 for example. I would not want it to be thought that
5 our brief is directed toward secondary industry only.
6 All I was saying in reply to Mr. Gibson's question was
7 we recognize that this is a most important area in
8 relation to handling our employment problem, but it
9 does not necessarily handle some of the other social
10 capital problems or investment problems.

11 In terms of agriculture, there are a number
12 of problems and I suppose always will be; the number
13 of people that are leaving the farm, for example.
14 This is a characteristic of an advancing and more
15 sophisticated society. As they leave the farm, they
16 also leave the factories and enter more into service
17 industries. This is a characteristic of the type
18 of economy that we have. We think there are problems
19 in this respect but we have not specifically dealt with
20 them here.

21 As the Premier originally pointed out, we
22 are interested from the point of view of selling
23 agricultural products. This is an export problem.
24 Food processing we treat as a secondary industry
25 even though it is agriculturally based. These
26 things we really intended to include in a general
27 way, sir.

28 COMMISSIONER MACKINTOSH: May I ask
29 in respect of this area, do you think specifically in
30 terms of a private non-profit organization such as the



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COMMISSIONER MACLENNON: May I ask
in respect of this area, do you think specifically in
terms of a private non-profit organization such as the



1 National Bureau is, or a co-operative government
2 organization?

3 MR. MACAULAY: Frankly I think we thought in
4 terms of something on a private basis. We think it
5 is in the basic interest of industry in the private
6 sector, and we rather hoped that we could encourage
7 the establishment of something of this nature apart
8 from government but with, of course, government
9 co-operation. I do not know that we had in mind
10 government support. When I was talking about that
11 originally, was that the concept?

12 I think on pages 7 and 8, sir, we discuss
13 this and we say that in our province we are most
14 happy to co-operate with such an organization and,
15 in fact, we would be happy to help create it if we
16 could, but I think its basic strength would be more
17 lasting if it were an enterprise of the private sector
18 of the economy on a non-profit basis.

19 COMMISSIONER MACKINTOSH: My recollection
20 is that the National Bureau in New York does not
21 undertake much of the kind of study you have given
22 as examples.

23 MR. MACAULAY: Well, that may be.

24 COMMISSIONER MACKINTOSH: That is in areas
25 which underline policy issues immediately. Most of
26 their studies have been much more fundamental and
27 long-range.

28 MR. MACAULAY: I would think, sir, that the
29 studies I have suggested are not necessarily those
30 which would lead to government policy. They also



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MR. MACAULAY: I would think, sir, that the studies I have suggested are not necessarily those which would lead to government policy. They also



1 could lead to industrial enlightenment, if I may
2 say that.

3 Our interest has been limited to what
4 experience we do have in Ontario in relation to trade
5 matters and encouraging secondary industry to compete
6 in the outer markets and to sort of rise up and
7 strike a blow on their own behalf. We have felt that
8 we suffer from an inferiority complex as a nation,
9 province or as our industries do and; secondly, there
10 is a lack of knowledge of opportunities available
11 and the problems that they face. We emphasize this
12 particularly in respect of small business, but we
13 think it is also typical of some of the large businesses --
14 not those that can have people in foreign markets
15 constantly and afford to have them there, but we
16 feel that -- "ignorance" is a very harsh and I do
17 not like to use it in this sense -- lack of information
18 is a debilitating factor in developing the economy.
19 These kind of studies might be very useful quite
20 apart from government policy which might flow from
21 them.

22 PROFESSOR TRIANTIS: The reason why we
23 mention the National Bureau is to emphasize that it is
24 a private non-profit organization, independent of
25 national prestige.

26 Now, we also refer to the Bureau as
27 existing, for instance, in Germany, and we think it
28 undertook studies of a thorough nature, or of
29 India, which we set up -- that is "we" in the West;
30 their National Economic and Development Council, which

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1 itself undertook, for instance, private studies of
2 saving in India. If we had a study of saving in
3 Canada I think we would be further ahead than we are
4 now with a Royal Commission sitting on matters of
5 credit and financing.

6 In the States the National Bureau is able
7 to specialize in studies, as you mentioned, sir,
8 which are not quite as close to policy-making, and
9 the reason is that there are other institutes or
10 committees that do that job. There is, for instance,
11 the Committee for Economic Development. Maybe that
12 will be the next stage, but we have to start with
13 an institute and eventually get the second one that
14 will do something closer to policy.

15 COMMISSIONER MACKINTOSH: I just wanted to
16 get clear what you had in mind.

17 Next you mention the National Planning
18 Association of the United States, and it does a good
19 many studies of the sort that you have been mentioning.
20 There is, of course, no reason why in Canada we should
21 duplicate the pattern of any other country, but
22 rather adapt it to our own particular purposes.

23 MR. MACAULAY: In fact, doctor, there has
24 been a tendency to sort of look at our economy as
25 a small junior addition of the American economy. I
26 do not think that this is true. Therefore, what
27 kind of palliatives or medicines have helped the
28 American economy may not necessarily affect us in
29 the same way.

30 I must say, Mr. Chairman, that the four

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1 examples of study that I put in were inserted by
2 me without any knowledge of my confreres, so the fact
3 that we have all been able to still stick together
4 with it I think is very fortunate.

5 COMMISSIONER MACKINTOSH: Well, as a former
6 civil servant I would always judge that to be a mistake.

7 THE CHAIRMAN: May we proceed to the next
8 subject, Mr. Leman?

9 COMMISSIONER LEMAN: Yes, Mr. Chairman. I
10 have a few questions to ask in respect of part III
11 of the government's brief where it says in part
12 that you are really getting into a field that is of
13 primary interest to the Commission, besides being
14 of interest to the provinces and the municipalities.

15 To start the discussion, would you give
16 us a broad statement of the approach to financing
17 that the province and municipalities have or should
18 have, and I have in mind the relation of the total
19 needs that should be financed through borrowing and
20 the part that should be financed through tax revenues
21 in an ideal situation. You talk through this part
22 about investment in human capital, but when you
23 come to decide what you want to finance through
24 borrowings and what you should finance through current
25 taxes you are not using capital in that sense there,
26 are you, or would you go back to more physical
27 measurements of what should be financed through
28 long-term borrowing?

29 MR. MACAULAY: I think, sir, if I might
30 at least initially, ask that this question be directed

MR. MADDEN: I think, sir, it might

be said that this question be directed

to the fact that you would go back to some physical

taxes you are not making capital in that sense there,

because you are not making capital in that sense there,

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of the general results of the work as a whole in part

have a new question to ask in respect of part III



1 to the Premier and the Treasurer. I have my own
2 views on this which I will give following up after
3 they have spoken, but this is their basic field and
4 I think perhaps your question should be directed to
5 them at this moment.

6 PREMIER ROBARTS: Well, as I gather
7 your question, it is, what proportion of the expenditure
8 in certain fields, municipally and provincially, should
9 be met from current account and should be met by
10 borrowing?

11 COMMISSIONER LEMAN: Yes, what principles
12 should be followed by the provinces and by the
13 municipalities?

14 PREMIER ROBARTS: Well, subject to any
15 comment the Treasurer may have, I would say that in
16 our municipalities this, in many instances, gets
17 down to the question of what you can do. In other
18 words, you do not necessarily follow a formula. You
19 end up with what you can do within the area of practice
20 and what your requirements are, and a formula would
21 not be applicable to different municipalities. Although
22 we do work in this province to certain formulas
23 which are established by an organization called
24 the Municipal Board which functions under the
25 Department of Municipal Affairs, and it sets a limit
26 on debt in relation to assessment. This might drive
27 a municipality into financing out of current account
28 something that perhaps should be financed by debt
29 because they may have reached the debt limit that
30 the Municipal Board will permit them to issue in

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1 debentures.

2 Then to further complicate the situation
3 you will run into situations where there are statutory
4 requirements that the municipality must meet regardless
5 of what the Municipal Board may say, or what formula
6 they may set up as being the proper formula to keep
7 the municipality financially sound. I am falling
8 into Mr. Macaulay's trap; I am making a speech. We
9 end up in this position; it is very difficult to
10 devise a formula to meet the requirements that you
11 are talking about.

12 Discussion in regard to the point that
13 we were speaking of here will be my answer when I
14 am questioned further.

15 COMMISSIONER LEMAN: Let me illustrate
16 a little bit what I have in mind. In paragraph 41
17 at page 13 of your brief you have given some indication
18 of the magnitude of your problems in the realm of
19 education for the next 10 years and some indication
20 of the magnitude of your problems in the realm of
21 health, but you start the paragraph by saying:

22 "We can illustrate this point by a
23 brief reference to the Ontario situation."

24 You end up by saying:

25 "These figures give some indication of
26 the expanding total financial burden
27 facing the Province in the coming years."

28 You have not really given us much of
29 an idea of what are the problems facing the province
30 in the next 10 years divided as between the increase



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COMMISSIONER LEWIS: Let me illustrate

a little bit what I have in mind. In paragraph 11 of page 13 of your brief you have given some indication of the magnitude of your problems in the realm of education for the next 10 years and some indication of the magnitude of your problems in the realm of health, but you start the paragraph by saying:

"We can illustrate this point by a

brief reference to the Ontario situation."

You end up by saying:

"These figures give some indication of the expanding local financial burden facing the Province in the coming years."

You have not really given us much of an idea of what are the problems facing the province in the next 10 years divided as between the increase



1 in the tax yield that the province should be entitled
2 to expect, and the part of the total burden that is
3 likely to have to be financed in the capital market.
4 Those are the kinds of things that would give us
5 a real indication of the magnitude of the problem
6 from the point of view of financing in the capital
7 market.

8 PREMIER ROBARTS: This will lead us
9 into another part of the brief really because it
10 is very difficult for us to estimate what portion of
11 our expenditure we will have to meet in the capital
12 market by borrowing, until we know what our revenues
13 are. As is pointed out in the brief, it is very
14 difficult for us to forecast our revenues, although
15 we can forecast pretty accurately some of our
16 expenditures. At least, we can forecast what our
17 expenditures will be if we are to achieve 100 per
18 cent of what we want. We may have to settle for
19 something less than 100 per cent in the future. We
20 know, for instance, that the children are going to
21 be there. In the field of expenditures anticipated
22 we will say at the university level we can forecast
23 from our elementary school population how many will
24 be in secondary schools, and statistically it is
25 not difficult to forecast the number that will be
26 knocking at the doors of our universities, but we
27 cannot forecast whether we will be in a financial
28 position to provide the facilities that these young
29 people will need even though they are there. That
30 is what I meant by saying we can forecast 100 per cent



1 of what we would like to do from a financing point
2 of view. We may be forced to settle for less than
3 perfection, if you understand what I mean, and simply
4 not provide the facilities we would like. It may be
5 that the Treasurer or Mr. Brown, the Deputy, can
6 give you what you are seeking, and I believe that is
7 a forecast in respect of what our revenues will be
8 compared to what our expenditures will be.

9 COMMISSIONER LEMAN: Well, I would not
10 go quite so far as to ask for actual figures for
11 a projection of ten years right at this meeting, but
12 I am asking you whether there is a definite financial
13 policy.



1 MR. ALLAN: I might indicate that there is
2 a financial policy at the provincial level. It has
3 been the policy and the practice of the government,
4 even since the time that your Chairman was treasurer,
5 to finance all current expenses from current revenue,
6 and to endeavour to finance a greater percentage of
7 the capital costs which comes to a government in
8 providing some of these items which are mentioned
9 here by borrowing. The percentage that is borrowed
10 varies from year to year; but we have been able, and
11 hope to continue to be able, to pay a substantial
12 percentage of the cost of the capital programme from
13 current revenue, and to provide as well a sinking
14 fund that will retire the debt in a period of 40 years.
15 That is our policy.

16 MR. BROWN: It is 30 years.

17 MR. ALLAN: Yes, 30 years. That has
18 been generally the policy of the government. Mr.
19 Hickey is here, and he is very familiar with the
20 controls of the Municipal Act as they affect municipal
21 financing. The same practice is carried on there,
22 except that most capital expenditures are financed
23 by borrowing by the municipalities. There is control,
24 as has been pointed out by the Premier, but there is
25 likewise a very strict control with respect to the
26 financing of any current expenditures by debt or by
27 debentures or bonds on the part of the municipalities.
28 Mr. Hickey could give you any particular instance you
29 would like in that connection. I do not know whether
30 that answers your question.



MR. ALLAN: I might indicate that there is

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1 COMMISSIONER LEMAN: Well, we will keep
2 on digging a little in this realm. In paragraph 43
3 you explain to us that between the years 1949 and 1961
4 the total budgetary expenditure of the government of
5 Ontario rose quite a bit more in percentage than
6 did that of the federal government, or even the gross
7 national expenditure. Now, if that has happened
8 since 1949, what evidence is there in that period
9 that the capital market and/or the tax sources available
10 to the provinces or the municipalities have failed
11 to provide adequately for their needs? Is there
12 such evidence?

13 MR. ALLAN: Of course, this matter has
14 been discussed many times at Federal-Provincial
15 conferences. The provinces generally, certainly
16 our province in particular, have pointed out the fact
17 that is made in this particular paragraph. That is,
18 that what we may call capital investment in our human
19 resources has grown. One of the problems of financing
20 the province is as a result of that particular facet
21 having grown more quickly than has the overall economy,
22 or -- this is not, of course, our particular problem --
23 with respect to the federal government. That is the
24 reason we have had to impose additional taxes during
25 the last year roughly, in order to meet these situations.

26 COMMISSIONER LEMAN: Would you think that
27 in the period you are talking about, 1949 to 1962
28 approximately, which is some 13 years, because of this
29 rate of growth in budgetary expenditures, there has
30 been a need for too much borrowing of the total need



COMMISSIONER LEWIS: Well, we will keep

on digging a little in this realm. In paragraph 43

you explain to us that between the years 1949 and 1952

the total budgetary expenditure of the Government of

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been a need for too much borrowing of the total need



1 as against the amount raised on current taxes, or not?

2 MR. ALLAN: No, we do not think that.

3 There may be a question whether anything is too much
4 or whether it is desirable, but we do not feel that
5 the extent of our borrowing has in any way harmed our
6 financial position as a province.

7 There arises at the same time the question
8 whether one wishes to increase one's net debt from
9 year to year, thereby increasing the cost of interest
10 payment; but I might say that it was for the purpose
11 of keeping ourselves in an excellent financial
12 position that we did impose additional taxes, which
13 is not anything that any government may choose to do
14 because they think it will be popular. However, we
15 have done it and we are keeping ourselves in that
16 position, and presently we are in a sound financial
17 position.

18 COMMISSIONER LEMAN: Therefore you feel
19 that during the period in question your needs have
20 been fairly well met through a mix of tax policy and
21 borrowing policy?

22 MR. ALLAN: That is so.

23 COMMISSIONER LEMAN: Yet for some reason
24 you fear that in the future you cannot meet these
25 with the proper mix?

26 MR. ALLAN: Well, we wonder how far we
27 can go in increasing revenue. We can see, as the
28 Premier has pointed out, the increase in the cost
29 of these services, particularly the social services,
30 and it does give us cause to be concerned.

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MR. ALLAN: No, we do not think that.

There may be a question whether anything is too much

or whether it is desirable, but we do not feel that

the extent of our borrowing has in any way harmed our

financial position as a province.

There arises at the same time the question

whether we wish to increase our debt from

year to year, thereby increasing the cost of interest

payments; but I might say that it was for the purpose

of keeping ourselves in an excellent financial

position that we did impose additional taxes, which

is not saying that any government may choose to do

because they think it will be popular. However, we

have done it and we are keeping ourselves in that

position, and presently we are in a sound financial

position.

COMMISSIONER LEWIS: Therefore you feel

that during the period in question your needs have

been fairly well met through a mix of tax policy and

borrowing policy?

MR. ALLAN: That is so.

You feel that in the future you cannot keep these

which are proper?

MR. ALLAN: Well, we cannot know for

can go in increasing revenue. We can see, on the

the revenue is going to be increased in the future

of revenue is going to be increased in the future

and it does give us cause to be concerned.



1 PREMIER ROBARTS: One we foresee so
2 clearly, and the other we look at through a glass
3 darkly. In other words, our expenditures seem to be
4 pretty well fixed, and we have forecast a great many
5 of them. But our income we do not see clearly; nor do
6 we see it necessarily ^{expanding} /as rapidly as our expenditure
7 requirements. I think the history of the past few
8 years bears this out.

9 COMMISSIONER LEMAN: I am trying to get
10 at what is your basic worry about the future. Is it
11 that if you are not given more leeway or better sources
12 of tax revenues you will then be forced to meet too
13 much of the province's needs through borrowing? Is
14 that the focus of your worry?

15 PREMIER ROBARTS: We must find new
16 sources of taxation.

17 MR. ALLAN: At the same time, I think
18 we note the feeling generally that there is a limit
19 to the burden of taxation that an economy wishes to
20 carry if it is going to be in a position to be a
21 serious competitor in world markets.

22 MR. MACAULAY: I think that one of our
23 opening points which we are making is the last sentence
24 on page 16, that:

25 "It is obvious that a short-period
26 decline in the rate of growth of
27 total financial resources of these
28 governments might require very drastic --
29 well-nigh impossible -- restrictions
30 in their other expenditures if these



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1 " governments are to provide steadily
2 growing outlays in social and human
3 capital."

4 The impression I had as a partial author of this section
5 was that we were directing the burden of our comments
6 to the necessity of programmes at a national level
7 which would bring about growth, from which we could
8 obtain the tax levels. We were pointing out what
9 we would need, and we were pointing out, in addition
10 to that, that when the government applies the brake,
11 they have to remember where they are. That is the
12 point we want them to know, because I do not think
13 we have the flexibility in our budgeting that they
14 have, and when they decide on tight money, it is
15 because they have greater flexibility in their financial,
16 fiscal, monetary, budgetary policies, et cetera, that
17 we do not possess that they do not get squeezed like
18 we get squeezed. That is the burden of this argument,
19 although we may not have expressed it as well as you
20 would like to.

21 We are not complaining about where we
22 are going to get the money. All we are trying to make
23 is an effective argument that we must have some
24 assurance of the economics and the borrowing capacities
25 what you referred to as the "mix", sir. We are not
26 complaining that it will not be possible, but we are
27 warning that it will not be possible unless we have
28 national policies directed towards a satisfactory
29 rate of growth.
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rate of growth.



1 Secondly, we want to point out that although
2 the policies the federal government does apply in
3 moments of duress, and whatever else may apply, on a
4 national basis, we do not think sufficient consideration
5 has been given to the problem of the provinces and
6 the municipalities in relation to their fixed necessities,
7 their fixed outlay.

8 COMMISSIONER LEMAN: Mr. Macaulay, earlier
9 in the discussion you talked about this Commission
10 trying to ferret out who were the bad boys
11 and who were the good boys when we are thinking in
12 terms of inflation, and I imagine that when you
13 were talking about the "bad boys" you had in mind
14 what is called the demand pull inflation type of
15 situation. A lot of representatives of municipalities,
16 not only from Ontario but from elsewhere, have explained
17 to us that they feel they could bring a great contri-
18 bution towards greater economic activity through
19 municipal work of one kind or another if they are
20 encouraged and helped to do so. Would that not
21 point to the fact that they could be bad boys? We
22 are, of course, using "bad boys" in a nice sense here.
23 In other words, what surprises me a little bit is
24 the danger of this concept, when we are thinking of
25 an inflationary situation, that some are bad boys and
26 others are not, whatever they do, whatever is
27 their rate of growth, or whatever are their total
28 expenditures.

29 MR. MACAULAY: I do not think, with great
30 respect, that it is what the total expenditures are

MR. MACAULAY: I do not think, with great

respect, that it is wise to total expenditures and

expenditures.

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expenditures, whatever they do, whatever, in

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the policies the Federal Government does apply to

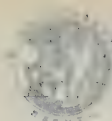
Accordingly, we have to point out that



1 nearly as much as when they do it that matters. This
2 was really what we had in mind. I would think that
3 inflationary problems are basically caused by people
4 who put on the pressure at the wrong time, and who,
5 by the very nature of their occupation, may do so.
6 Whether this is true of the municipalities or not,
7 I am not prepared to say, but I would not have said
8 so.

9 COMMISSIONER LEMAN: Is it your basic
10 tenet here that the nation as such should, on a long-
11 term basis, focus its attention on the needs in the
12 realm of the provincial goals and activities -- this
13 investment in human capital about which you are talking,
14 improvement of our municipal facilities, et cetera --
15 that this should remain stable and everything else
16 should fluctuate around it to accommodate that? Is
17 that it?

18 MR. MACAULAY: No, sir, with respect, I
19 think that is not so, but again, this situation
20 is not so today. What we want to have is an awareness
21 at the federal level and the Bank that when policies
22 are applied --
23 It is like being in the army. Everybody got an aspirin;
24 no matter what you had, you got an aspirin. This is
25 the way we have been applying economic policies, it
26 seems to me, and I think that today is a new day and
27 a new era, and that although an aspirin may be an
28 awfully good thing for a headache in Ottawa, it is
29 not doing much to help the municipality of Etobicoke.
30 That is my point.



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2 was really what we had in mind. I would think that

3 the very nature of their occupation, may be that

4 Whether this is true of the municipalities or not.

5 I am not prepared to say, but I would not have said

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1 I think we have to have selective credit
2 controls. We have to have flexible national policy
3 in relation to these things, and all we are trying
4 to do is to hope that you will draw to the govern-
5 ment's attention that you cannot just apply blanket
6 measures in view of the fact that the municipalities
7 and the provinces have these very heavily built-in
8 expanding, fixed expenditures. Is that not really
9 the basic problem?

10 MR. ALLAN: Mr. Leman, I might point out
11 that the province does make a great deal of money
12 available to the municipalities, so that the problems
13 of the municipalities are shared by the provincial
14 government. In fact, 45 per cent of our revenue
15 roughly is paid to municipalities in the form of
16 subsidies and grants of one type or another.

17 COMMISSIONER LEMAN: Yes. But I am still
18 a little puzzled by the fact that both the municipalities
19 and yourselves -- and here I refer to paragraph 53 --
20 claim that you could collaborate with the federal
21 authorities in anti-cyclical policies.

22 MR. MACAULAY: I do not think that this
23 is what we intend. We recommend that machinery be
24 devised for regular consultation. So that when
25 they are planning various policies which you might
26 describe as anti-cyclical, we can draw to their
27 attention the effect that this is going to have on
28 the municipalities and the provinces themselves. The
29 way you phrased it, Mr. Leman, it sounded as if we
30 in concert should concoct a policy. That is not



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MR. ALLEN: Mr. Leman, I might point out that the province does make a great deal of money available to the municipalities, so that the problems of the municipalities are shared by the provincial government. In fact, 45 per cent of our revenue is paid to municipalities in the form of subsidies and grants of one type or another.

COMMISSIONER LEMAN: Yes. But I am still a little puzzled by the fact that both the municipalities and yourselves -- and here I refer to paragraph 23 -- claim that you could collaborate with the federal authorities in anti-political policies.

MR. MACALPINE: I do not think that this is what we intend. We recommend that machinery be set up to discuss various policies which you might describe as anti-political, we can draw to their attention the effect that this is going to have on the municipalities and the provinces themselves. The way you expressed it, Mr. Leman, it sounded as if we in concert should concoct a policy. That is not



1 the point. They have responsibility for the policy.
2 All we want to be able to do is to have our day in
3 court.

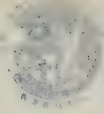
4 COMMISSIONER LEMAN: Do you not think
5 that in fact the municipalities and the provinces
6 could collaborate with the federal authorities in
7 implementing anti-cyclical policies?

8 MR. MACAULAY: Yes, I think this is
9 quite possible.

10 COMMISSIONER LEMAN: Does that by itself
11 infer a certain amount of fluctuation in the level
12 of expenditures?

13 MR. MACAULAY: I would think so. But
14 only to the extent that it does not negate a point
15 we have already made, namely that we cannot avoid a
16 very large portion of the expenditures that we are
17 already committed to make.

18 COMMISSIONER MACKINTOSH: All at stake
19 here is some margin. Periods of tight money have
20 recently been fairly short. It is not a matter of
21 good and bad boys but of too many boys trying to get
22 through a bottle neck at once. There may be a certain
23 percentage of the margin, maybe only a period of
24 six months, which will cover the period. We have
25 a tremendous number of clients who all claim that
26 they ought to be freed from any penalty of high
27 interest rates; it is only somebody else who needs
28 to be restrained. In fact, are you particularly
29 restrained in your capital expenditures if interest
30 rates for a period are relatively high?



the point. They have responsibility for the system.
The system is not a simple one.

count.

COMMISSIONER LEAMAN: Do you not think

that in fact the municipalities and the provinces

will ultimately take the same responsibility?

It is a question of responsibility.

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concerned in your view with the

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1 PREMIER ROBARTS: It depends on the length
2 of the period, Dr. Mackintosh, and with certain
3 expenditures at the municipal level it might be
4 very difficult to postpone them.

5 THE CHAIRMAN: Yes, but many of them
6 could be postponed.

7 PREMIER ROBARTS: Yes. And I would
8 accept Mr. Leman's point, that some anti-cyclical
9 planning could be accomplished in concert, as long
10 as your periods are not too great.

11 THE CHAIRMAN: All the municipal expendi-
12 tures do not go in schooling.

13 PREMIER ROBARTS: That is quite right.

14 THE CHAIRMAN: And human capital of that
15 kind. Many of them go into other matters which were
16 once considered to be within the realm of the province,
17 but which are now regarded as something you are
18 entitled to.

19 MR. ALLAN: Of course, in times of tight
20 money, which there might be, certainly before the
21 effect of the tight money has disappeared, it may
22 be a time when it is desirable to accelerate the
23 economy.

24 THE CHAIRMAN: Well, there would not be
25 tight money.

26 MR. ALLAN: Well, that was so. We
27 have gone through that.

28 THE CHAIRMAN: Of course, there have been
29 mistakes made from time to time on all sides.

30 MR. ALLAN: Of course, the high interest



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Toronto, Ontario

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1 rate is a deterrent in doing something that is probably
2 very sound, in going ahead with public works of one
3 kind or another.

4 THE CHAIRMAN: You have also to remember
5 this, that for very many years the provinces and
6 everybody else were borrowing at a very low interest
7 rate. If you look at your whole debt structure, the
8 net position is not as bad as that.

9 MR. ALLAN: Your Lordship, you were the
10 only one who could do that!



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1 I am afraid when you think of some of the interest
2 rates you paid that your face must really ---

3 MR. MACAULAY: Break out in a smile. On
4 page 16 we note -- whether it is helpful to the argument
5 or not -- that 56 per cent of the current expenditure
6 of all provincial governments and 40 per cent of
7 municipal current expenditure consisted of outlays
8 on education, health and public welfare. Now, I
9 don't know whether that helps Mr. Leman's point.
10 I do think that the point he makes is worthwhile and
11 that there is room for co-operation, but you have to
12 have the mechanics to bring this about, Mr. Leman,
13 and I think this is one of the points which we
14 were attempting to make in the paragraph referred to
15 as paragraph 53.

16 We would like an opportunity of
17 expressing our views. These problems are under
18 consideration, and I think you quite rightly point
19 out that it may be by understanding each other's
20 problems that we can perhaps shorten the period of
21 tight money, but fundamentally the burden of our
22 argument here I think is set out in paragraph 55 --
23 although it is hard to isolate one paragraph -- where
24 we say:

25 "This is not the place to consider
26 in any detail the merits and disadvantages
27 of our system and techniques of credit
28 control, or the pros and cons of selective
29 control of credit. There is hardly any type
30 of monetary policy that does not, in effect,



I am afraid when you think of some of the interest rates you paid that your time must really ---

MR. MACAULAY: Please not in a smile. On

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of all provincial governments and 40 per cent of

municipal current expenditures consisted of outlays

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control, or the pros and cons of selective

control of credit. There is hardly any type

of monetary policy that does not, in effect,



1 discriminate against some sector of the
2 economy. It is necessary, however, to convey
3 our view that tightening of credit, in
4 the manner practised in Canada, has often
5 had an unduly limited effect on those sectors
6 of the economy, investment in inventories,
7 purchases of consumer durables or land
8 speculation etc., which might have been
9 responsible for inflationary pressures.
10 Changes in interest rates, may not affect
11 decisions in these areas because interest
12 costs respond too slowly to changes in open
13 market rates of interest, changes in interest
14 rates are a secondary consideration in
15 decisions to borrow, or, because informal
16 rationing of credit may not have been very
17 effective. On the other hand, credit
18 tightening has affected seriously sectors
19 of the economy which were not among those
20 responsible for sudden inflationary pressures,
21 such as government expenditure programmes
22 which are vitally important from the point
23 of view of the desirable rate and pattern
24 of the economic and social development
25 of Canada. For the reasons indicated in the
26 previous paragraph provincial and municipal
27 governments have been hit hard by policies of
28 credit restriction; so has small business,
29 as indicated in more detail later in our
30 submission."

our view that tightening of credit, in the manner practised in Canada, has often had an unduly limited effect on these factors of the economy, investment in inventories, purchases of consumer durables or land speculation etc., which might have been responsible for inflationary pressures. Changes in interest rates, may not affect decisions in these areas because interest costs respond too slowly to changes in open market rates of interest, changes in interest rates are a secondary consideration in decisions to borrow, or, because informal rationing of credit may not have been very effective. On the other hand, credit tightening has affected seriously sectors of the economy which were not among those responsible for sudden inflationary pressures, such as government expenditure programmes which are vitally important from the point of view of the domestic rate and pattern of the economic and social development of Canada. For the reasons indicated in the previous paragraph provincial and municipal governments have been hit hard by policies of credit restriction, no less small business, as indicated in more detail later in our



1 COMMISSIONER LEMAN: Well, in that paragraph,
2 sir, I point out that you use the words:

3 "has affected seriously sectors of
4 the economy which were not among those
5 responsible for sudden inflationary
6 pressures, such as government expenditure
7 programmes..."

8 and a little later on you use the words:

9 "provincial and municipal governments
10 have been hit hard by policies of credit
11 restriction..."

12 Does the record give some evidence that this is so?

13 MR. MACAULAY: Well, if you mean can we
14 borrow money anywhere and at any old rate at
15 all, no. However, we provincially have been able
16 to borrow; I can't say the same for the municipalities.
17 For example, this city itself, Ottawa, went recently
18 to New York to borrow. Quebec Hydro went to New
19 York to borrow, and a number of people have gone
20 to New York to borrow to get a lower interest rate.
21 If you are talking about can we borrow at all --
22 no, I would say that the province has not been
23 stopped in the path of development by the fact
24 that it hasn't been able to borrow, but it has had
25 to borrow at higher interest rates, certainly, than
26 it would otherwise have had to borrow at if
27 consideration had been given to the problems of the
28 province and the municipalities when tight money
29 policies were being applied, but I think that is
30 about all I can say on it.



COMMISSIONER IRVING: Well, in that paragraph,

sir, I point out that you use the words:

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policies were being applied, but I think that is

about all I can say on it.



1 I think quite rightly, perhaps, the
2 semantical emphasis which we placed on certain words
3 hit hard, and we should perhaps have qualified them
4 and placed them in another way, but I might say
5 this to you, sir, that there were seven drafts of
6 this, and I don't think that we would have gotten
7 it out if we had had to exercise the delicate weight
8 of words that might have been required.

9 COMMISSIONER LEMAN: No, no; what I am
10 leading at is this; what do you call being hit
11 hard? Going to New York to borrow money is not
12 necessarily being hit hard.

13 MR. MACAULAY: We think paying $6\frac{1}{2}$ per cent,
14 or something of that order, as being hit hard when
15 you have a billion dollar debt, as we have, and with
16 the prospects of adding greatly to it in the next
17 three or four years. What are we up to, what is
18 the interest to us?

19 MR. ALLAN: About \$80 million.

20 MR. MACAULAY: About \$80 million.

21 THE CHAIRMAN: What is it in per cent?

22 MR. MACAULAY: What percentage?

23 THE CHAIRMAN: Yes?

24 MR. MACAULAY: Oh, 5.65, perhaps.

25 THE CHAIRMAN: Well, is 5.65 such an
26 exorbitant rate?

27 MR. MACAULAY: It is when you have been getting
28 it at $3\frac{1}{2}$.

29 THE CHAIRMAN: It is evening up a little
30 bit.



I think quite rightly, perhaps, the
verbal emphasis which we placed on certain words
his hand, and we should perhaps have qualified them
and placed them in another way, but I might say
this to you, sir, that there were never drafts of
this, and I don't think that we would have gotten
it out if we had had to exercise the delicate weight
of words that might have been required

COMMISSIONER LEWIS: No, no; what I am

feeling at is this: what do you call being his
hand? Going to New York to borrow money is not
necessarily being his hand.

MR. MACAULAY: We think paying 6 1/2 per cent,
or something of that order, as being his hand when
you have a billion dollar debt, as we have, and with
the prospect of adding greatly to it in the next
three or four years. What are we up to, what is
the interest to us?

MR. ALLAN: About \$80 million.

MR. MACAULAY: About \$80 million.

THE CHAIRMAN: What is it in per cent?

MR. MACAULAY: What percentage?

THE CHAIRMAN: Yes?

THE CHAIRMAN: Well, is 6.62 such an

exorbitant rate?

MR. MACAULAY: It is when you have been getting

it at 3 1/2.

THE CHAIRMAN: It is evening up a little



1 MR. ALLAN: Everyone has a standard,
2 whether it is moral or spiritual, whatever it is,
3 and it always seems to me that when we get above
4 $5\frac{1}{2}$ per cent the interest rate is high.

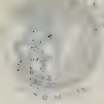
5 THE CHAIRMAN: We have had many years of
6 easy times on borrowing money, and it has been suggested
7 to us by one expert witness that if they had begun
8 to tighten up money a little bit earlier than they
9 did that any crisis situation might have been avoided.

10 MR. MACAULAY: Well, of course, we find
11 that ---

12 THE CHAIRMAN: But you have to assume in
13 these matters that when the parties do take certain
14 steps that they believe are in the best interests
15 of the country at the time, and when it is all over
16 and you look back on it you see other factors that
17 were not apparent at the time, and from hindsight
18 you may decide, perhaps, that you were mistaken.

19 MR. ALLAN: I think if I might appraise
20 the situation, the reason for mentioning it is
21 this; that very probably a province will require more
22 money during a period of tight money than they do
23 when the economy is good, that is, when everything
24 is flowing along nicely, and we noticed the fact
25 and we did have to pay 6 per cent for bonds, and
26 if that continues for 20 years you don't like paying
27 6 per cent.

28 MR. MACAULAY: I wouldn't want Your Lordship
29 to misunderstand; we are not trying to substitute
30 our opinion for the Federal Government as to when



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5 1/2 per cent the interest rate is high.

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to us by one expert witness that if they had begun
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6 per cent.

MR. MAGALY: I wouldn't want your money

no misunderstanding; we are not trying to anticipate
the opinion for the Federal Government as to when



1 there should be and when there should not be tight
2 money, all we are saying is this, when the government
3 decides to adopt a policy, we think it unwise to just
4 throw a blanket over the whole country from coast
5 to coast. We think that there is room today for
6 selective control.

7 THE CHAIRMAN: But what do you suggest
8 as effective selective control?

9 MR. MACAULAY: Oh well now, our basic
10 burden here was to point out to you that we think
11 that this is one of the great charges and opportunities
12 that you gentlemen have before you.

13 THE CHAIRMAN: Yes, I know, but from the
14 studies you have made of this whole problem I would
15 have thought you would have had a concrete recommendation.
16 What sort of a selective control would you be prepared
17 to submit should happen? Selective controls might
18 affect you as well as somebody else.

19 MR. MACAULAY: Well, I will tell you --
20 to change the subject, that is always a good idea
21 when you get cornered -- that one area in which I
22 think it is absolutely fundamental that we have got
23 to have a selective control is in terms of export
24 credit. I don't think in other circumstances that
25 would apply, but I think we will have to establish,
26 perhaps nationally, a special fund, perhaps special
27 arrangements with the banks or with private industry,
28 or whatever it may be, but I don't think we can put
29 on a blanket credit control relating to export
30 credit.



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or whatever it may be, but I don't think we can put

on a blanket credit control relating to export



1 THE CHAIRMAN: How does that help the
2 municipality?

3 MR. MACAULAY: Sir, I was changing the
4 subject.

5 THE CHAIRMAN: I think that you have a
6 section on export trade.

7 MR. MACAULAY: Yes. You were going to
8 come to it. Do you mean you want me to get back?

9 COMMISSIONER LEMAN: Mr. Macaulay, I don't
10 want to argue with you, I am just asking some
11 questions, but let us not change the subject for
12 another moment, if you don't mind. My point is this;
13 it seems to me, without getting into the techniques
14 of selective controls or exactly what form they
15 should take, your point is that by reference again
16 to paragraph 55 that monetary policy at the time
17 of high demand when you want to be restrictive should
18 hit just those sectors which you have mentioned
19 in the middle of paragraph 55 on page 18; investment
20 in inventories, purchases of consumer durables
21 and land speculation. This is the sort of thing which
22 you feel should take the brunt of restrictive monetary
23 policy?

24 MR. MACAULAY: I think the point, sir,
25 is they have no built-in need, theirs is postponable
26 but, as the Prime Minister has indicated, once we
27 take children into the educational system you can't
28 send them home with a note to the mother saying, "Send
29 him back when tight money is over."

30 COMMISSIONER LEMAN: That is right, but I



MR. MONTAGNA: Sir, I was checking the

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COMMISSIONER LEWIS: Mr. Montagna, I don't

want to argue with you. I am just asking some

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another reason. If you don't mind. My point is that

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MR. MONTAGNA: I think the point, sir,

is they have no built-in need, there is no possibility

but, as the Prime Minister has indicated, once we

take children into the educational system you could

send them home with a note to the mother saying, "Send

the money when the money is over."

THE CHAIRMAN: That is right, sir.



1 think Dr. Mackintosh mentioned something a few minutes
2 ago that should bring this thing into focus. When
3 you try to effect, through monetary policy, the
4 total level of expenditures in the country, you are
5 trying to work on the fringe. You are not trying
6 to destroy the whole system, you are not trying
7 to stop education of children, that sort of thing,
8 you are trying to stop the fringe. Are not the
9 provinces and the municipalities partly involved in
10 the fringe, too? They build.

11 MR. MACAULAY: Oh yes, they do build,
12 certainly, but again all I can do is repeat our
13 point, and that is that some areas of the economy
14 respond quickly, either up or down, to tight money
15 policies. Some respond very slowly and to some
16 tight money doesn't matter a hoot and they will go
17 ahead and back the market so long as they can get
18 it, and we believe they can get it, and they will go
19 ahead and spend it.

20 with
21 COMMISSIONER LEMAN: So it is /the province;
22 it doesn't like the fact it costs more, but it goes
23 right ahead anyway and that is what these other people
24 do also?

25 MR. MACAULAY: And what we are trying to
26 do is put a little emphasis on the purposes, if you
27 want, the moral purposes for which the borrowings
28 are taking place.

29 COMMISSIONER LEMAN: That is your point. I
30 just wanted to get your point clearly on the record.

May I shift now a bit to this question
of the sources of revenue that you deal with quite a



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1 bit. There are some points which you make that
2 puzzled me a bit, and I refer now to paragraph 44
3 where you suggest that the pressure that you refer
4 to here may have led to over-expansion of certain
5 taxes while others are under-utilized. Could you
6 be more specific there as to what you had in mind
7 in these two types of---

8 MR. MACAULAY: You mean as to which taxes
9 may have been over-utilized and which taxes may not
10 have been?

11 MR. LEMAN: Yes?

12 MR. MACAULAY: Well, speaking for myself,
13 and I think the Treasury and the Premier -- and others
14 have something also to say on this subject -- my
15 own view is that the corporation tax has been over-
16 utilized and I think, frankly, it has become a burden
17 and the general movement around the world today is
18 for a lessening of the corporation tax in the hope
19 that having done so we can stimulate the economy
20 and in the long run increase tax returns.

21 Examples of the under-utilization of a
22 tax, what under-utilization of this may well be
23 said to be -- although I don't necessarily join
24 the ranks of those who would say it -- in Ontario it
25 might be the sales tax. We had no sales tax until
26 last year.

27 COMMISSIONER LEMAN: It has been under-
28 utilized or not utilized at all?

29 MR. MACAULAY: Yes, and, Mr. Leman, it
30 is a lower tax than, of course, there is in British

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COMMISSIONER LEMMON: It has been under-

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is a lower tax than, of course, there is in British



1 Columbia and I think in Quebec and in most of the
2 provinces; in Saskatchewan it is 5 per cent, it
3 is 5 per cent in British Columbia and 5 per cent
4 in Quebec -- it is 6, is it, excuse me. Have you
5 any other areas? It may also be that the real property
6 tax, which in the next paragraph we point out has
7 increased more than three times, and it would have
8 had to have increased even more, but we are saying
9 here that it would have had to increase more than
10 three times if it had not been for the fact that
11 the Province of Ontario, for example, has upped its
12 aid to the municipalities by about \$425 million, and
13 this is a very large amount of money to be dealing
14 in and if there had been a proper weighing of these
15 things perhaps the realty tax may have gone up
16 even more than it has. Now, I don't know that I
17 can give you a definitive list; my staff may be
18 able to help you or may be able to say something
19 on that.

20 THE CHAIRMAN: We will have this answered
21 and then we will adjourn.

22 PROFESSOR TRIANTIS: If I may come into
23 the picture. Although it has been dealt with, there
24 are two problems, one of a long-term and one of
25 a short-term, and the long-term problem is this;
26 we know what affects us, that provincial expenditures
27 have risen faster than federal expenditures, and
28 we anticipate that this will happen in the future.
29 We have no evidence that the revenue from provincial
30 taxes will rise faster than the revenue from federal

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1 taxes. This has not happened in the past and, as
2 Mr. Allan suggested, the government had to impose a
3 different tax altogether. We have no evidence and
4 no assurance that this will happen in the future.
5 It is the case of the provinces having to
6 have enough revenue to meet the faster rise in
7 expenditures. That is on the revenue side, to
8 meet the expenditures, and on the revenue side we
9 are concerned about the nature of taxation in Canada.
10 Taxes don't only provide revenues, they have to do
11 with incentives, economic growth, with welfare,
12 with the distribution of the economy, and so on and
13 so forth, so we feel it is not the case of where
14 as soon as your expenditure needs a rise, you just
15 raise the taxes that belong to you; we feel there
16 is need for more general re-examination. What kind
17 of taxes should rise?

18 For instance, an increase in the municipal
19 revenue taxes from real property, is that desirable
20 from the point of view of economic growth? Is that
21 the kind of tax that has to be over-taxed, as it
22 were? That is the question.

23 So that on the expenditure side, we think
24 we should meet expenditures and we think we are getting
25 the best structure or we think we are stretching
26 to meet certain needs because these things are
27 the responsibility of the federal and provincial
28 governments.

29 MR. MACAULAY: To put it in a slightly
30 different way, we wonder whether taxation in Canada

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 MR. MACAULAY: To put it in a slightly
 different way, we wonder whether taxation in Canada



1 hasn't reached the stage where taxation should be
2 imposed with an eye on growth and the effect it will
3 have on the economy rather than for the convenience
4 of the tax collector.

5 THE CHAIRMAN: Well, we will continue
6 this discussion at 2 o'clock.

7 MR. MACAULAY: It is still in the realm
8 of discussion, isn't it? We don't want to give the
9 impression we are having a fight; it is a discussion.

10 COMMISSIONER BROWN: We don't fight with
11 anybody. It is conversation.

12 --- Luncheon adjournment.

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...Lassen adjournment.



1 --- Upon resuming at 2.05 p.m.

2 THE CHAIRMAN: Do you wish to commence
3 now, Mr. Macaulay?

4 MR. MACAULAY: Yes, Mr. Chairman, I think
5 we might begin, but before we do may I be permitted
6 to make an observation. We have made some fifteen
7 suggestions or recommendations to the Commission.
8 I think those that affect the Prime Minister
9 and the Treasurer most intimately are those upon
10 which you are now proceeding, Mr. Leman. At a
11 later stage of the afternoon it may be, because of
12 some other arrangements, that the Prime Minister and
13 the Treasurer will be leaving to catch a plane. I
14 am anxious that the Chairman understands that the
15 balance of this brief really affects the economists
16 of our Department more than the Treasurer and the
17 Prime Minister, and we will be staying over in Ottawa
18 until tomorrow.

19 If it suits the convenience of the Commission
20 we are very anxious to proceed this afternoon and
21 continue for as long as the Commission feels it would
22 like to continue, but I will ask the Commission to
23 excuse the absence of the Premier and the Treasurer
24 after 3.40 P.M. We would like to continue for
25 as long as whatever we have to say is of use to the
26 Commission.

27 THE CHAIRMAN: Very well.

28 COMMISSIONER LEMAN: Mr. Macaulay, despite
29 the fact, as you say, some of the questions I have
30 in mind asking should be addressed to the Premier and

THE CHAIRMAN: Do you wish to commence

MR. MAGAULAY: Yes, Mr. Chairman, I think

we might begin, but before we do may I be permitted

to make an observation. We have made some fifteen

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I think that the bill is a good one

and the Treasurer most intimately are those upon

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THE CHAIRMAN: Very well.

COMMISSIONER LEMAN: Mr. Macaulay, despite

the fact that the bill is a good one

it is with the convenience of the Commission



1 the Treasurer, I would point out that this Commission
2 is not the Royal Commission on Taxation, and neither
3 are we consultants to the Dominion-Provincial Conference.
4 Having regard to that I do not think we should ask
5 you too much about reallocation of tax powers. I am
6 talking about taxes in so far as they relate to the
7 flow of funds and the use of funds.

8 Before lunch we were talking about
9 over-utilized and under-utilized fields of taxation.
10 There is another sort of animal that is referred to
11 at the end of paragraph 52, and that is the types of
12 taxes, the revenue from which normally changes cyclically,
13 and which are subject to easy manipulation in counter-
14 cyclical policies.

15 You also refer to taxes which provide for
16 cyclically stable and steadily growing tax revenues.
17 Would you describe the characteristics of these types
18 of taxes, and tell us which they are? What kind
19 of taxes are these that you have in mind?

20 MR. MACAULAY: Well, there are various
21 taxes which, for example, respond in direct ratio
22 to the product of the country, or of a province or
23 whatever jurisdiction it might be, but one tax which
24 has, perhaps, been a disappointment in recent periods
25 of time, both in the United States and in Canada,
26 has been the corporation tax. I should think this
27 is a tax which one could very well say is related
28 to the growth of an economy.

29 There are certain other taxes which are
30 related in the same way. For example, the real
estate tax, I would say, would be a tax which does not



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You also refer to taxes which provide for cyclically stable and steadily growing tax revenues. Would you describe the characteristics of these types of taxes, and tell us which they are? What kind of taxes are these that you have in mind?

MR. MACAULEY: Well, there are various taxes which, for example, respond in direct ratio to the product of the country, or of a province or whatever jurisdiction it might be, but one tax which has, perhaps, been a disappointment in recent periods of time, both in the United States and in Canada, has been the corporation tax. I should think this is a tax which one could very well say is related to the growth of an economy.

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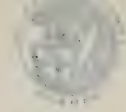
1 respond to the financial cycles of a country in that
2 it is related to assessment and the legislative
3 capacity of a municipality. Whilst the municipality
4 fixes the assessment and the rate on that assessment,
5 the tax on real estate does not respond to the cyclical
6 movements in an economy, whereas, I should think it is
7 fair to say, a corporation tax does.

8 Now, within what area personal income tax
9 falls is questionable, but I should think it is likely
10 the former. In other words, the amount of work, the
11 number of hours worked, and the pay that a person
12 receives would result in a responding, bouncing yo-yo
13 kind of a tax.

14 Whether there are others than the real
15 estate tax, I do not know. Perhaps succession duties
16 is another form of tax such as that. If I might
17 be pardoned the pun, I will mention the liquor tax.
18 If you look at the history of liquor revenue you will
19 find it seems to be sustained at a fairly high level
20 even at times of economic disquiet.

21 COMMISSIONER LEMAN: Yet am I right in
22 thinking that mostly during the last ten years or so
23 the provinces have been putting pressure on the federal
24 government for a larger share of personal income taxes
25 and corporate taxes?

26 MR. MACAULAY: I think it is right basically,
27 because they have been faced with the fact, as Professor
28 Triantis has said -- let me put it this way; the needs
29 and spending of the federal government have not
30 expanded at nearly the rate as have those of the provincial



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and spending of the federal government have not

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1 governments and the municipalities. I think it is
2 fair to say that, since the demand has been greater
3 in the municipal and the provincial field, there
4 has been a pressure towards taking over fields of
5 taxation which the federal government operates --
6 fields of taxation which are really productive fields,
7 and I am thinking particularly of the personal income
8 tax and the corporation tax fields.

9 There is also the historic feeling that
10 the provinces are entitled to a larger share of these
11 fields than they are now enjoying.

12 COMMISSIONER LEMAN: I was interested
13 also in your argument about the flexibility which
14 you seem to think is built into the federal setup
15 regarding its level of expenditures. The federal
16 government is very much engaged in welfare payments,
17 too, and some of those tend sometimes to require more
18 money when there is a dip in economic activity, do
19 they not?

20 MR. MACAULAY: Yes. The fact is, however,
21 that in one day the federal government was able to
22 announce a cut of \$200 million in their budget, and
23 that is something which I do not think is open to most
24 provincial or municipal governments.

25 All I am saying here, without making an
26 analytical review of the situation, is that a greater
27 percentage of the provincial and municipal budgets
28 and revenues is devoted to built-in situations over
29 which we have less control than has the federal
30 government.



...and the municipalities. I think it is
...to say that since the demand has been greater
in the municipal and the provincial fields, there
has been a pressure towards taking over fields of
taxation which the federal government operates -
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1 Let me put it this way; the provincial
2 government has no control over the birth rate in a
3 province, nor over how many of these children are
4 therefore going to enter into the educational system.
5 So far as the federal government is concerned,
6 depending upon one's point of view, they have complete
7 control over approximately two-fifths of their budget
8 for defence.

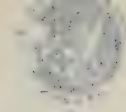
9 COMMISSIONER LEMAN: Yes, but defence
10 requirements, from the point of view of the political
11 and the international atmosphere, would not necessarily
12 respond to the cycle in any way.

13 MR. MACAULAY: No, sir, but I think the
14 point you were making to me was that the federal
15 government is, perhaps, restricted in the same way
16 that the provincial governments are in that they find
17 it impossible to trim in the same way that we find
18 it impossible to trim. I was just trying in an ad hoc
19 way to point out to you certain areas in which I feel --
20 whether it is desirable or not, I do not know -- it is
21 practically possible for the federal government to
22 trim and where it is not practically possible to trim
23 at the provincial level.

24 COMMISSIONER LEMAN: They get caught
25 with your children when they get a bit older.

26 MR. MACAULAY: Do not look at me. I
27 have only two.

28 Basically speaking, I do not think
29 that their budgeting is as related as closely to the
30 numbers in families as it is at the provincial level.



Let me put it this way; the provincial

government has no control over the birth rate in a province, nor over how many of those children are therefore going to enter into the educational system. So far as the federal government is concerned,

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that their budgeting is as related as closely to the

numbers in families as it is at the provincial level.



1 However, I acknowledge -- and we have stated this at
2 a number of places in this brief -- that there is
3 room for debate everywhere, and there are as many
4 opinions, I suspect, as there are people on the mix
5 of objectives. All we can do is to put to you the
6 basic point that we put to you before lunch, namely,
7 that we would like to be consulted before policies
8 are implemented, and, secondly, we would like the
9 federal government to realize that in implementing
10 its policies it ought to look and see who it is they are
11 affecting which, as I personally represent to you,
12 I do not think they have done.

13 I think this is the burden of about ten
14 pages of this section, and I do not think I could
15 distil it in fewer words.

16 COMMISSIONER LEMAN: Let me end up on
17 this field with a very general question; do I read
18 into what you are telling us that you would not,
19 in general, be in favour of the use of fiscal policy
20 as a counter-cyclical measure?

21 MR. MACAULAY: No, I do not think this,
22 sir, with respect, would be fair. We think that fiscal
23 policy and monetary policy generally must be utilized
24 to the full in contra-cyclical budgeting, and we believe
25 in contra-cyclical budgeting. What I am saying is
26 that we are not against contra-cyclical budgeting,
27 and we do not want to assume somebody else's
28 responsibility. We want to be consulted, and we
29 would like the federal government to realize that
30 when they apply a policy we would like their arguments,

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1 if possible, to be more selective and more flexible
2 so that there can be selective credit controls.

3 The Chief Justice has pointed out some
4 of the problems involved in this, and I am sure
5 we are all aware of these, but this does not mean that
6 where there is a will there is not a way.

7 We have suggested in this brief ways in
8 which these things can be done. We thought it would
9 be a trespass upon your terms of reference if we went
10 into this field too much. Perhaps this matter is
11 more closely associated with the work to be under-
12 taken by the Royal Commission on Taxation. But,
13 nevertheless, we feel that this is an avenue which
14 is thoroughly worth investigation.

15 I think you have been very gentle with
16 us, and I would like to be very specific in relation
17 to your questions, but I only want to point out to
18 you that we are not asking you to find revenues for
19 us. We are not asking you to find markets from which
20 we can borrow. ~~What~~ we are asking is that you point
21 out to the federal government the importance of
22 investment in human capital and, secondly, the policies
23 that they may place on themselves at the House of
24 Commons level may have a very serious effect; that
25 while a policy might help investment in physical capital
26 it might also have a very serious effect that they
27 are not aware of on our obligations which we feel --
28 maybe improperly so -- are more fixed than theirs are.

29 COMMISSIONER LEMAN: We have heard from
30 representatives of municipalities throughout the



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COMMISSIONER LEMAN: We have heard from
representatives of municipalities throughout the



country this week a proposal for the establishment of a Canadian municipal loan fund or bank under the auspices of the federal government. The purpose of this fund -- although I must admit its exact functioning was not thoroughly elaborated for us -- would be, generally, to make credit for municipalities much cheaper. It would have the credit of the federal government behind it. Do you have any comments to make about this ambitious plan?

MR. MACAULAY: I am sure you will have noticed that there was no reference made to it in our brief. The only observation we would have is that we are a part of the whole country, and if it is the opinion of the majority that a programme such as this is desirable then we would do nothing, of course, to stand in its way.

We also have the great concern that this cuts in both directions, even if the details, which as you have said are rather nebulous, at the moment are known.

We are anxious to do everything we can on our own behalf and on behalf of our municipalities. We have limits to our capacity. If we felt that this would not interfere with the responsibilities we have towards our municipalities, and that it would aid them, I would think we would be quite prepared to say that we would support such a programme, but we have not made it a part of our brief.

COMMISSIONER LEMAN: There is one more comment I would like to make in relation to paragraph



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COMMENT: MR. LEMAY: There is one more
comment I would like to make in relation to paragraph



1 57. There is something there -- I am not sure that
2 I read the paragraph correctly, and I may have exaggerated
3 what you are trying to suggest there, but it does seem
4 to suggest to me that regardless of the cycle monetary
5 policy is made subject rather to the financing needs
6 of the federal government. I do not know whether you
7 feel there is any evidence of that.

8 MR. MACAULAY: Well, I do not know that
9 I want to stand and quote chapter and verse, but
10 certainly the impression we have -- I think an objective
11 observer would suggest, in view of the juxtaposition
12 of the provinces and the federal government, and the
13 aegis by which we can consult one another, and the
14 relationship of the Bank plus its obligation to the
15 federal government, that the odds are very high that
16 what we say is correct.

17 Now, whether I can quote to you chapter
18 and verse to establish this as in a court of law
19 beyond all reasonable doubt is quite another matter.
20 But, this is the impression that we have, and we
21 think that the odds favour this conclusion being an
22 accurate one.

23 COMMISSIONER LEMAN: You follow on from
24 there with a recommendation that the provinces be
25 represented on the board of the Bank of Canada?

26 MR. MACAULAY: Yes, sir.

27 COMMISSIONER LEMAN: Do you know that the
28 board of the Bank of Canada already has built into it
29 some regional representation across the country.
30 I suppose that form of regional representation could



1 be done away with if the provinces were represented?

2 MR. MACAULAY: Is that a rhetorical question
3 that you are asking me, sir? I do not know that I
4 would want to be put in the position of proposing
5 that the regional representation be done away with.
6 All I am saying is that we do not feel there is a
7 sufficient direct relationship or bearing upon the
8 position of the provinces and the municipalities
9 as such on the Board, and we feel that there should be.
10 If this directly suggests that they should remove
11 certain people who are there now, then I will say
12 this is a conclusion we did not have in mind when
13 we made that recommendation.

14 COMMISSIONER LEMAN: I wonder what would
15 happen if the provinces were represented as you
16 suggest. Would their representatives be able to
17 recommend a temporary subjection of monetary policy
18 to their financial needs?

19 PREMIER ROBARTS: Does not this get
20 to the point you were discussing before lunch that
21 this is really a question of means by which you know
22 what is going on? Perhaps the ultimate answer would
23 be the tailoring of some municipal and provincial
24 needs to the overall picture.

25 MR. MACAULAY: And vice versa.

26 PREMIER ROBARTS: Yes. I think this is
27 the point we had reached just before lunch.

28 MR. MACAULAY: Yes. It is a matter of
29 communication. Very often a man upon whom the death
30 sentence has been pronounced feels happier when he has



done away with if the provinces were represented?

that you are asking me, sir? I do not know that I

would want to be put in the position of proposing

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PREMIER ROBERTS: Yes. I think this is

MR. MACAULAY: Yes. It is a matter of

communication. Very often a man upon whom the death

sentence has been pronounced feels happier when he has



1 been heard. This is the same feeling we have. I
2 can acknowledge to you frankly, as I said this morning,
3 that we did not have in mind a representative from
4 every province. I am not sure that we have gone
5 into the matter of how many, and so on. But, if we
6 were to say that the relationship of the federal
7 government and the Bank of Canada was such that the
8 policies of the federal government and the bank were
9 such as to augment and assist one another without
10 sufficient consideration to the provinces, then
11 it follows that we would like to have somebody at
12 the foot of the throne, so to speak, to put in a word
13 or two for the soon to be deceased, as we put it
14 here.

15 COMMISSIONER GIBSON: When you mention a
16 "representative of the province" are you thinking
17 in terms of somebody who directly represents you
18 and provincial interests? You are not thinking
19 of putting somebody on who would not be well informed
20 about provincial interests?

21 MR. MACAULAY: I would like to think
22 you could have a man who had both qualities.

23 COMMISSIONER GIBSON: I would assume that
24 such a man, if he is to be a representative of some-
25 body else on the board ---

26 MR. MACAULAY: If you require an absolute
27 answer on that I would say the basic requirement would
28 be for him to represent the views of the province on
29 the board.

30 COMMISSIONER MACKINTOSH: You do not



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such a man, if he is to be a representative of some-

body else on the board --

MR. MAGALUAY: If you require an absolute

COMMISSIONER MAGALUAY: You do not



1 necessarily mean that he would be an instructed delegate?
2 There are people of varying experience on the board
3 of the Bank of Canada, but they do not directly represent
4 anybody nor are they instructed by anybody.

5 MR. MACAULAY: I would suspect that the
6 person would have -- I do not know that the fact that
7 a person directly represents somebody necessarily makes
8 him also a delegate, but if it does I would be inclined
9 to think that that is likely to be the point of view.
10 To just add one more person to the board who could
11 make recommendations against the interests of the
12 provinces would not accomplish what we have been putting
13 to the Commission.

14 COMMISSIONER LEMAN: To wind up a question
15 I had, Mr. Macaulay, -- I do not want this to appear
16 as if I am pointing to a contradiction in your brief;
17 I just want to know which of the two points you prefer
18 to emphasize. In paragraph 48 of your brief the
19 last sentence reads:

20 "In view of the importance of government
21 revenues and expenditures, at all
22 levels, in present-day Canada, reforms
23 of credit institutions and policies
24 must go hand in hand with a rational
25 reorganization of our fiscal structure."

26 whereas in Part II of your summary there is this
27 sentence:
28
29
30



...the fact that the Commission has not yet been established ...

of the Bank of Canada, but they do not directly represent anybody nor are they instructed by anybody.

MR. MACAULAY: I would suggest that the person would have -- I do not know that the fact that a person directly represents somebody necessarily makes him also a delegate, but if it does I would be inclined to think that is likely to be the point of view. To just add one more person to the board who could make recommendations against the interests of the provinces would not accomplish what we have been putting to the Commission.

COMMISSIONER LEWIS: To wind up a question I had, Mr. Macaulay, -- I do not want to appear as if I am pointing to a contradiction in your brief; I just want to know which of the two points you prefer to emphasize. In paragraph 48 of your brief the last sentence reads:

"In view of the importance of government revenues and expenditures, at all levels, in present-day Canada, reform of credit institutions and policies must go hand in hand with a rational reorganization of our fiscal structure."

whereas in part 11 of your summary there is this sentence:



"Improvements in the channels and effectiveness of business communication in the broadest sense are required more urgently than any change in the number and size of the financial institutions and their methods of finance."

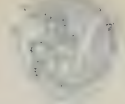
Which would you like to emphasize?

MR. MACAULAY: Well, I would not emphasize either. I would like to insert the word "may" in the last sentence you used:

"Improvements in the channels and effectiveness of business communication in the broadest sense may be required more urgently than any change in the number and size of the financial institutions and their methods of finance."

In short, I do not believe in throwing the baby out with the wash. There is a tendency, when looking for new ways and means to do things, just to throw the baby out with the wash, sweep everything out that you have got. It very well may be that the size and number of the institutions that we have are most adequate. It may be that their effectiveness is lost somewhat because of a lack of communication. With great respect I hope that you will not feel, Mr. Leman, because I respond very quickly to the points that you are putting to me, that I would be on the defence in relation to this. I do not know that they are necessarily contradictory views.

COMMISSIONER LEMAN: No. I prefaced my question



in the broadcast sense are required more

urgently than any change in the manner and

style of the financial institutions and their

methods of finance.

Which would you like to emphasize?

MR. MAGUIRE: Well, I would not emphasize

either. I would like to insert the word "and" in the

"Improvements in the channels and

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Werner, because I respond very quickly to the point

that you are putting to me, that I would be on the

defense in relation to this. I do not know what they are



1 by saying I did not look upon this as a contradiction.
2 I am just wondering about this. We heard earlier
3 in the discussion that you felt that monetary policy
4 at times has hit hard the provinces and municipalities,
5 and I am wondering if you would ascribe all this
6 strictly to the monetary policy as taken or whether
7 you would ascribe part of it to the institutional
8 setup we have in this country. Are you completely
9 satisfied with this institutional setup, or do you
10 feel that part of the difficulties are due to that?

11 MR. MACAULAY: I think the burden of our
12 argument in our brief, in any event, has been on
13 the policies rather than on the institutions.

14 MR. STEVENSON: That is true, with the
15 exceptions we have mentioned.

16 MR. MACAULAY: Yes, with the exceptions
17 we have mentioned.

18 COMMISSIONER BROWN: I have some questions
19 with respect to a section of your brief dealing
20 with the financing of small business. This is obviously
21 a field in which we have considerable interest. We
22 have heard quite a lot about this but there are
23 several matters on which we would like the benefit
24 of your advice, opinion and information. I start
25 off by asking you if you would help us define a
26 small business. This has been quite a problem in
27 a number of briefs that have been presented to us.
28 How do you define a small business, or what do you
29 think is a satisfactory definition of a small business?

30 MR. MACAULAY: I think the implication of this



by saying I did not look upon this as a compensation.

in the discussion that you felt that monetary policy at times has hit hard the provinces and municipalities, and I am wondering if you would ascribe all this

strictly to the monetary policy as taken or whether

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a number of places that have been presented to me.

in defining a small business, or what do you

mean by a satisfactory definition of a small business?

MR. MACAULAY: I think the implication of this



1 morning was that there are a number of definitions,
2 and obviously you were asking a question which gets
3 right back to that, that a lot of people have different
4 definitions of it.

5 My own definition of a small business, for
6 what little it is worth, is obviously a different
7 one than that adopted by, I think, D.B.S. ---

8 MR. STEVENSON: The Small Business Branch
9 of the Department of Trade and Commerce.

10 MR. MACAULAY: --- or the Small Business
11 Branch of the Department of Trade and Commerce,
12 whoever the authority is. We have taken arbitrarily
13 a figure of, let us say, 15 employees and we have said
14 that more than 50 per cent of the manufacturing
15 companies in Ontario employ 15 or less employees.
16 Whether that is a good standard, I do not know, but
17 it at least shows that if you did take that standard,
18 8,000 out of 13,000 fall into that category. When you
19 get eight out of thirteen and you relate this to
20 the number of employees, the capital, the new plant,
21 taxes paid, and so on, this is a very sizeable
22 proportion of your manufacturing complex.

23 I do not know, Mr. Brown, whether that is
24 a very satisfactory answer. As Mr. Stevenson has
25 said, the Small Business Branch of the Department
26 of Trade and Commerce says that 90 per cent of
27 Canadian businesses are small. Now, I do not know
28 what standard they use. Mr. Stevenson, do you
29 know what standard they use to come up with that
30 figure?



1 MR. STEVENSON: No. They have used a variety,
2 I think, but it is a slightly higher figure than 15
3 employees, if you take employees.

4 MR. MACAULAY: In the document which we
5 prepared for the Prime Minister of Ontario in relation
6 to some matters which we now have before
7 the government, we describe small businesses as those
8 whose needs for equity and loan capital are too small
9 to interest business loan companies or to be marketed
10 satisfactorily in the national capital markets.

11 This, of course, was directed towards the
12 subject we were then studying.

13 COMMISSIONER BROWN: We are talking about
14 the financing of small businesses, and I am sure
15 you would not suggest that because they had 25
16 employees they were excluded from this problem.

17 MR. MACAULAY: No.

18 THE CHAIRMAN: How high do you go?

19 PROFESSOR TRIANTIS: This definition comes
20 close to the definition of the Macmillan Committee
21 which has defined small or medium-sized firms as
22 being firms which require long-term capital in amounts
23 "not sufficiently large for a public issue."

24 And if you go and look at the costs of
25 floating an issue under a half a million to a million
26 you will find -- I have some figures here -- in order
27 to float common stock under half a million the cost
28 is 27 per cent; under one million the cost is
29 21 per cent, and then from one to two million it goes
30 down to 13½. Beyond that it goes to 10 per cent or less.

MR. STEVENSON: No. They have used a variety,

I think, but it is a slightly higher figure than 15

MR. MACLEAY: In the document which was

prepared for the Prime Minister of Ontario in relation

whose needs for equity and loan capital are too small

to interest business loan companies or to be marketed

separately in the national capital markets.

This, of course, was directed towards the

subject we were then studying.

the financing of small businesses, and I am sure

you would not suggest that because they had 25

employees they were excluded from this program.

THE CHAIRMAN: How high do you go?

close to the definition of the Macleay Committee

which has defined small or medium-sized firms as

being firms which require long-term capital in amounts

"not sufficiently large for a public issue."

And if you go and look at the course of

floating in 1958 under a half a million to a million

you will find -- I have some figures here -- in order

to those common stock under half a million the cost

is not too high; under one million the cost is

it goes up; and under two million the cost is even



1 I would say if you have to borrow a million or less
2 your business is small.

3 MR. MACAULAY: You might be a sky-writing
4 equipment company and your risks would be much too
5 high. I do not think that you can tie it to that,
6 as to what your undertaking is, but if we have to give
7 a definition perhaps that is as good as any.

8 COMMISSIONER BROWN: You do not have to give
9 a definition but you could help us with a definition.

10 MR. MACAULAY: Could you tell us, since we
11 ourselves have bandied this phrase around on numerous
12 occasions, what you consider to be a small business?

13 COMMISSIONER BROWN: This is a point we
14 have not discussed yet. We are trying to get
15 information and opinion on it.

16 MR. MACAULAY: I am glad to hear that we
17 are not the only ones who cannot answer that.

18 COMMISSIONER BROWN: We have had quite a
19 number of briefs presented to us dealing with this
20 problem of small businesses. One at least said there
21 was no problem in financing a small business. They
22 were obviously in the business of financing small
23 businesses and they felt there was no problem. There
24 was another who said that 85 per cent of the problem
25 was not a matter of finance but one of management.
26 I notice you are preparing to develop in your
27 Department something of assistance along this line.
28 Some Canadian universities run extension courses
29 for this. Do you do so in Ontario?

30 MR. MACAULAY: Yes.

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your business is small.

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a definition but you could help us with a definition.

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for this. Do you do so in Canada?



1 COMMISSIONER BROWN: Do you support them
2 financially in the province?

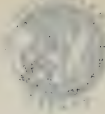
3 MR. MACAULAY: I do not think so, except
4 we pay considerable grants to universities and in
5 that sense we support them.

6 COMMISSIONER BROWN: Do you actively encourage
7 this? In other words, do you recognize it as a
8 problem?

9 MR. MACAULAY: Yes.

10 COMMISSIONER BROWN: When you get down
11 to financing, you spoke in your introductory statement
12 of the incidence of high taxes. This is probably
13 getting on the fringes of a Commission other than
14 our own, but I wondered, at the danger of so
15 infringing, if you had any expression of opinion on
16 whether the 21 per cent rate applies to the first
17 \$35,000 of taxable income? Do you think that amount
18 should be increased?

19 MR. MACAULAY: I will tell what we have done,
20 Mr. Brown. We have a group of economists with very
21 fertile imagination. We did not feel we were
22 satisfied with the tax position corporate-wise in
23 the problem, and we sat down and came up with a
24 number of incentive programmes related to more
25 employees, ~~more~~ plant, more exports, different
26 incentives as a whole. We have submitted these
27 to the Treasurer. We feel it is our responsibility
28 to sort of invent some of these things and he screens
29 them and decides, between himself and the Prime
30 Minister, what we will do in terms of these taxes.



MR. BROWN: Do you support them?

MR. MACAULAY: I do not think so, except

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that sense we support them.

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to the Treasurer. We feel it is our responsibility

to sort of invent some of these things and be serious

in them and decide, between himself and the

Minister, what we will do in terms of these taxes.



1 We feel, whether 21 per cent or some other
2 percentage is the point, that our basic problem is
3 not directed towards the level of taxes. It may
4 be that if the tax level were 25 per cent or 18
5 per cent they still could not. It is the smallness
6 of them, coupled with taxation, which makes it
7 difficult. Our real burden of our argument is to make
8 possible funds for medium and long-term financing,
9 other than those earned out of revenue.

10 I acknowledge I have not answered your
11 question as to what percentage might be more desirable.
12 Perhaps we have somewhat over-stated that particular
13 sentence, but that is what it seemed to be to us
14 at the time.

15 COMMISSIONER BROWN: In this field of long-
16 term financing you have quite a lot to say about
17 the I.D.B. In paragraph 75 you say:

18 "At the present time it is difficult
19 to know whether the I.D.B. is designed
20 primarily to assist small business, to promote
21 regional development or to advance industrial
22 development in the less wealthy provinces."

23 I am sure that you all know that in the
24 preamble to the I.D.B. reference is made to the
25 financing of small enterprises. So, we assume that
26 you have that at your fingertips, but I wondered
27 what you meant by these other two. Do you think
28 these other two should be included in the I.D.B.
29 preamble? I should like to hear your comments on
30 this. Obviously you have something in mind.



1 MR. MACAULAY: The main point we have to
2 make is there is a slip between the cup and the lip.
3 As far as we are concerned, the I.D.B. may have a set
4 of rules in the Act. You may vote another \$1 million,
5 \$2 million or \$3 million into a fund, but it
6 is how you administer it in the long run that is going
7 to determine whether you are going to use up that
8 money and for what purpose it is used.

9 Now, all we are trying to do is to have
10 a firm understanding amongst those who are doling
11 out the money as to whether they are supposed to be
12 aiding small businesses. It is my respectful submission
13 that if that is their purpose, then they better take
14 another look at what is a small business and what
15 kind of requisites you can demand of a small business
16 before you can lend them some money. I say this
17 because I am singularly unimpressed by their
18 effectiveness in this field.

19 All we are saying is that if the I.D.B.
20 exists to aid small businesses, that is fine. If it
21 exists to aid regional development, then that is fine.
22 If it exists to bring industrial development to the
23 less wealthy provinces, that is fine. But let us
24 have everybody dealing with them, including those
25 dishing out the money, know what they are doing,
26 because I do not think they do.

27 COMMISSIONER BROWN: That is fine. Presumably
28 you have some evidence to show that businesses are
29 not getting supplied.

30 MR. MACAULAY: This is my opinion. Someone



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you have some evidence to show that businesses are

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1 else may not accept it as evidence.

2 COMMISSIONER BROWN: We are endeavouring
3 to get information. Have you any information other
4 than opinion?

5 MR. MACAULAY: I think I have evidence of
6 a specific instance. I do not want to refer to it
7 here but I think I could find specific evidence
8 for you. It is a pretty generally held opinion that
9 the I.D.B. is not a development arm of the government
10 but rather a banking arm of the government. If I
11 could give you confidentially some examples, subject
12 to the approval of the people involved, I would
13 be prepared to do so.

14 COMMISSIONER BROWN: I think those would be
15 useful. The other matter is that we have had people
16 appearing before this Commission who want the I.D.B.
17 to do more. We have had a number of representations to
18 the effect that the I.D.B. is doing too much, that
19 they are competing where they are not supposed to
20 compete.

21 This arises particularly in the problem
22 what are funds or credit that
23 otherwise available on reasonable terms and conditions.
24 We have had companies complain that they were lending
25 money to enterprises, and I.D.B. came along and
26 re-financed them. Now, this is obviously the
27 problem. What should be meant by this term, "provided
28 not otherwise available on reasonable terms and
29 conditions"?

30 MR. MACAULAY: That is one of the problems we



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MR. MACAULAY: That is one of the questions we



1 had to consider, and I have not yet made my
2 representations to the Premier and the Cabinet on
3 this matter. But this is one of the things we had
4 to consider. If we were to establish a fund we would
5 not want to be in competition with the normal
6 channels of lending institutions. At the same time,
7 the mere fact that seven provinces have established
8 such a fund and that in two or three years in
9 Manitoba the Manitoba fund loaned more money in that
10 province than the I.D.B., and that Roy-Nat has
11 established itself in Canada, I think this is
12 the kind of evidence that gives some indication that
13 I.D.B. is simply not meeting its heralded purpose.

14 COMMISSIONER BROWN: I still get back to
15 the point: What interest rate differential do you
16 consider giving within this phrase of "reasonable
17 terms and conditions"? Let us use figures. If
18 the I.D.B. is prepared to lend at $6\frac{1}{2}$ and somebody
19 else is getting accommodation at 9, is that reasonable?

20 MR. MACAULAY: Mr. Brown, I want frankly to say
21 to you that based on the experience I have had, and
22 it is limited, and on the experience I have heard of,
23 and it has been extensive, nothing is turned on the
24 interest rate. What has turned on the interest rate
25 has been the fact that loans have been turned down
26 where there has been a darn good idea that might be
27 beneficial for the development of this country but
28 has not been within the traditional lending avenues
29 or ambit of the traditional lending institutions.
30 In the years in which I have some knowledge of this,

In the years in which I have some knowledge of this, has not been within the traditional lending avenues or ambit of the traditional lending institutions. and it has been expensive, nothing is turned on the interest rate. What has turned on the interest rate it is limited, and on the experience I have heard of, to you that based on the experience I have had, and MR. MACAULAY: Mr. Brown, I want frankly to say else is getting accommodation at 9, is that reasonable? the I.D.B. is prepared to lend at 6½ and somebody terms and conditions? Let us use figures. If consider giving within this phrase of "reasonable the point: What interest rate differential do you COMMISSIONER BROWN: I shall get back to I.D.B. is simply not meeting its heralded purpose the kind of evidence that gives some indication that established itself in Canada, I think this is province than the I.D.B., and that Roy-Nat has Manitoba the Manitoba fund loaned more money in that such a fund and that in two or three years in the mere fact that seven provinces have established channels of lending institutions. At the same time, not want to be in competition with the normal to consider. If we were to establish a fund we would this matter. But this is one of the things we had representations to the Premier and the Cabinet on had to consider, and I have not yet made my



1 the I.D.B. has decided that this sort of thing has
2 not come within the letter of the Act. My own view is
3 that the I.D.B. should be more concerned with the spirit
4 of the Act.

5 COMMISSIONER BROWN: I was asking for your
6 help and apparently you are not able to give us any.

7 MR. MACAULAY: I am sorry. I do not mean
8 to avoid it, sir. I just simply feel that that
9 is the aspect of the I.D.B. that I am most critical
10 of, the development aspect where a fellow has a good
11 idea. The interest rate is not the important thing.
12 It is to get somebody to back him at all.

13 THE CHAIRMAN: Who is to decide it is
14 a good idea? There are all sorts of ideas knocking
15 around the country which might not be feasible. Who
16 is to decide?

17 MR. MACAULAY: Is this quite correct? I
18 can say to you that the attitude basically, as I believe
19 it to be is that, "It is a great idea, old boy, but
20 this does not fit the letter of the Act, namely,
21 you are not able to put up enough equity. You have
22 not got enough. Let me see your profit and loss
23 statement" and that kind of thing. You cannot
24 get a development going on the basis of a profit and
25 loss statement.

26 THE CHAIRMAN: No, but you have to be sure
27 there are reasonable prospects of managerial ability,
28 and I should think there would have to be some
29 financial responsibility, surely.

30 MR. MACAULAY: Some financial responsibility,



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MR. MACAULAY: Some financial responsibility.



1 with great respect, My Lord, and what in my opinion
2 seems to be required, are some considerable poles
3 apart.

4 COMMISSIONER BROWN: The Manitoba fund functions
5 as a lender of last resort after I.D.B. has turned
6 people down. Is it your proposal that your fund
7 should operate on the same basis? Are you intending
8 to compete with I.D.B.?

9 MR. MACAULAY: I want to say I do not know
10 what we are going to do, for I am going to make
11 certain representations and it will be up to the
12 government to decide on the evidence that can be
13 presented pro and con on the matter, as to whether
14 we should get into it at all. I happen to be a
15 great believer in small businesses and in development.
16 When I press these reasons to them it will be up to
17 them to make what decisions seem to be in the best
18 interests of the province at the time. I would think,
19 and as I envisage such a fund, it would be used
20 after a person had proven that he had exhausted
21 the capacities of the normal and conventional lending
22 institutions to assist him. Then, having done so,
23 he would have to show that what he was proposing
24 was in the interests of development in the province
25 both from the point of view of employment and the
26 locality where we would like to see such development
27 brought about.



with some progress in the past and more in the future.
There is no doubt that the Government is doing its best
to do the best it can.

COMMISSIONER BROWN: The Honorable Lord Canning

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THANK YOU



1 COMMISSIONER BROWN: In paragraph 77 you
2 start dealing with short-term financing, and at the
3 end of paragraph 78 you say: *credit to small business*

4 " -- it would appear that in periods of
5 credit restriction bank credit to small
6 business is restricted proportionately
7 more than credit to larger firms."

8 We have heard a good deal about this almost
9 everywhere we have gone and it has been very difficult
10 to come to grips with. It sounds very good in theory and
11 on the face of it there is nothing wrong with the
12 argument at all, but it is awfully difficult to get
13 any evidence of it. Can you produce any evidence
14 for us? *None.*

15 MR. MACAULAY: I do not know what analogy
16 I should draw for you, but when a coloured person
17 goes into a parking lot and it is perfectly empty
18 and the attendant says: I am sorry, the parking
19 lot is full, or; We cannot accommodate your car,
20 what kind of evidence can you get? It is one of
21 the difficult things in our society. I do not know
22 how to prove any of these specifics.

23 COMMISSIONER BROWN: Let me ask you the
24 question, can you give us any evidence where people
25 who had a line of credit had it reduced?

26 MR. MACAULAY: I do not know that I cannot
27 obtain it. I can perfectly frankly say that I do
28 not have an example immediately in my mind, except
29 that I will tell you that the Ontario Northland
30 Railway, which is holier than thou to us in the



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Railway, which is holier than thou to us in the



1 province ---

2 COMMISSIONER BROWN: Even at 6 per cent?

3 MR. MACAULAY: Yes, even at 6 per cent.

4 We have had credit at 4 million and 5 million, and
5 we were told that a million dollars was the limit,
6 as I recall.

7 THE CHAIRMAN: They did not regard that
8 as small business.

9 COMMISSIONER BROWN: That is the point, we
10 are discussing small business.

11 THE CHAIRMAN: Perhaps they did exactly
12 what you intended they should do; they cut on the
13 big and saved on the small.

14 COMMISSIONER BROWN: They should ask the
15 big to go into the market so it will be available
16 for the small. This is what we are trying to get at.

17 MR. MACAULAY: Well, anything I would say
18 would be repeating what I have already said or
19 what is contained in the brief.

20 COMMISSIONER BROWN: Well, now, in this
21 connection you suggest raising the ceiling.

22 MR. MACAULAY: Incidentally, if I may
23 interrupt, sir, I almost believe that to argue other-
24 wise is to really get water to run uphill. From the
25 arguments that we have used, and I acknowledge that
26 I have not put specific instances at specific places
27 at specific dates before you, but to suggest that
28 something does not have to give during periods
29 of tight money when a small business may be at 6
30 per cent and someone is at $3\frac{1}{2}$ per cent or 4 because



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MR. MACAULAY: Yes, even at 6 per cent.
COMMISSIONER BROWN: Even at 6 per cent?
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1 of the size of their operation, and the fellow who
2 has not been with them very long and has not got
3 the great record that some of the other people may
4 very well have, I think is to deny really some of the
5 basic characteristics of the human mind.

6 COMMISSIONER BROWN: Mr. Macaulay, I would
7 like to make it clear that I am not disagreeing with
8 your argument or theories, I am merely asking you
9 if you can help us by producing some evidence.

10 MR. MACAULAY: Well, I will tell you this,
11 I will go home now by the first post and see what
12 I can find.

13 PROFESSOR TRIANTIS: There are two ways
14 of proving something. One is by witness and talking
15 to people and the other one is by simple argument.

16 COMMISSIONER BROWN: I am not debating the
17 argument, I am simply asking you to help us.

18 PROFESSOR TRIANTIS: We do not have to go
19 and ask people if it is true and if the argument
20 stands. If you disagree with the argument here
21 which the Minister has just dealt very, very briefly
22 with, then we will need direct evidence. If a
23 chap is not in a room there are two ways of proving
24 that he jumped out the window. One is to see that
25 he jumped out the window and the other is to show
26 that the door was firmly locked. This is the second
27 argument, that the door was locked and he must have
28 jumped out the window.

29 COMMISSIONER BROWN: I am afraid I do not
30 quite follow the parallel, but let us get on.



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THE COURT: (addressing the witness) You may go.

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he jumped out the window and the other is to show

that the door was firmly locked. This is the second
argument, that the door was locked and he must have

jumped out the window.

COMMISSIONER BROWN: I am afraid I do not

quite follow the parallel, but let us get on.



1 MR. MACAULAY: We are a free thinking group,
2 but in any event we will see what we can find.

3 COMMISSIONER BROWN: You talk about raising
4 the ceiling on bank interest. I am not quite clear
5 whether you want to raise it from 6 per cent to
6 some other percentage or whether you want to get rid
7 of it entirely.

8 MR. MACAULAY: No, I think we had in mind
9 that getting rid of it entirely would be taking
10 perhaps two steps when one would do. I think we had
11 in mind raising it to a higher level.

12 I frankly would say to you, Mr. Brown,
13 that we did discuss at some length whether the thing
14 should be removed altogether. There has been
15 a great tradition in the banking business, and I
16 think when the ceiling limit was put on it seems
17 to me that anything over 6 per cent was thought
18 of as usury. Secondly, there was sort of a monopoly,
19 and, thirdly, there was never the tremendous borrowings
20 in those days that there are now. At least this
21 is our impression. We thought at one time that it
22 perhaps might be removed entirely, but we thought
23 we would meet with less opposition if we suggested
24 that it just be raised.

25 THE CHAIRMAN: In other words it is not a
26 matter of principle, it is a matter of expediency?

27 MR. MACAULAY: I would not go that far.

28 COMMISSIONER BROWN: Well, is it fair to
29 ask how far it should be raised?

30 MR. MACAULAY: Well, I think new ground has



MR. MACAULAY: We are a free thinking group, but in any event we will see what we can find.

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1 been broken, hasn't it, by RoyNat who are lending
2 at 9 per cent? I do not know whether this is a target
3 which is worth aiming at, but this is a combination
4 of trust and banking companies which do not feel
5 that this is too high a rate under the circumstances.

6 I think, going back to a question that you
7 wanted me to answer, and I think I perhaps did not
8 realize exactly what you were asking at the time,
9 the fund such as I have been talking about should lend
10 money at a little over the conventional lending
11 institutions rates.

12 COMMISSIONER BROWN: In paragraph 83 down
13 near the end you say:

14 "It may be necessary to provide for policies
15 and techniques of selective control of
16 credit."

17 I would like to ask you in this regard not
18 so much what selective controls you would suggest,
19 although if you have any suggestions we would be
20 very pleased to hear them, but whether you see these
21 controls as controls that stop certain areas getting
22 credit, in other words making it available to
23 certain areas, or is the type of control that you
24 mention, one that makes it available to other areas?
25 In other words, insulating certain areas?

26 MR. MACAULAY: I understand. I think it
27 would be the latter rather than the former.

28 COMMISSIONER BROWN: In other words you
29 would like something that would make credit available?

30 MR. MACAULAY: Yes, I would think this is



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1 the area in which it would more properly be. Then
2 on the other hand I well recognize the argument
3 that is made by many persons who have come up the
4 hard way and have succeeded. They say: Why should
5 you be lending money to these sort of fly-by-night
6 organizations that cannot get it any place else?
7 I have heard all sides of this thing over and over
8 again, but I would think what we had in mind was
9 something positive rather than something negative.

10 It may very well be that, although Mr. Gibson
11 at your convenience and his will be able to instruct
12 you otherwise, that the removal of the limit on
13 borrowings may accomplish something of what we have
14 in mind -- the removal of the bank interest rate,
15 or the upping of it.

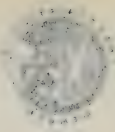
16 COMMISSIONER BROWN: That is all I have.

17 COMMISSIONER LEMAN: There is one thing
18 I should like to get more clearly in my mind. The
19 development funds of the other provinces are not
20 necessarily specialized in the small business field,
21 are they?

22 MR. MACAULAY: Oh, no. In fact, I think you
23 could frankly say that if there is a fund in Quebec,
24 its application has been in the very large field
25 such as in steel.

26 COMMISSIONER LEMAN: And out West as well?

27 MR. MACAULAY: And in Saskatchewan, yes,
28 I think, sir, this would be the most proper observation.
29 However, I think it also fair to state that depending
30 upon the market and location geographically of the



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However, I think it also fair to state that depending
upon the market and location geographically of the



1 institution involved that I think for instance it
2 might be easier for a company that has been financed
3 in Saskatchewan by the government, or helped through
4 funds, might find it was possible to have done it
5 by itself here in Ontario. Do you know what I mean?

6 It depends on a number of things; geographic
7 location, how urgently the jurisdiction wants them
8 to develop, and there are a number of factors that
9 I think would enter into what kind of industry the
10 fund would enter upon.

11 COMMISSIONER LEMAN: There is also a little
12 detail in respect of which I should like to have
13 the benefit of your experience, if you have been able
14 to observe some concrete facts in this area. It
15 comes back to paragraph 78 when you talk about short-
16 term financing. In the extension of credit terms --
17 trade terms -- who do you think in general benefits
18 the most when money gets tighter? What do you think
19 is the general direction of the extension of
20 terms?

21 MR. MACAULAY: Well, do you mean new loans
22 extending existing loans or ---

23 COMMISSIONER LEMAN: No, I am talking about
24 trade terms. Do you think in general that it is
25 small business that is then more able to rely on
26 suppliers who are generally larger businesses and,
27 therefore, improve their working capital position by
28 getting better terms when money is tight, or is
29 it the other way around?

30 MR. MACAULAY: Do you mean by getting credit;



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MR. MACAULAY: Do you mean by getting credit?



1 that is they do not have to pay for 30 days or
2 something of this kind?

3 COMMISSIONER LEMAN: Yes, trade credit.

4 MR. MACAULAY: As a matter of fact, Mr. Leman,
5 you have raised inferentially a most interesting
6 point. That is you infer from what you have said
7 that small business basically is served by industry.
8 Is that just what you have suggested?

9 COMMISSIONER LEMAN: No, I am suggesting
10 that small business is largely the customer of big
11 business.

12 MR. MACAULAY: Well, this, sir, we do not
13 think is true.

14 COMMISSIONER LEMAN: Oh, they do not get
15 their raw materials from larger enterprises?

16 MR. MACAULAY: Well, I am not talking about
17 raw materials as much as I am talking about the end
18 product, as to whether they are supplying a component
19 for somebody else.

20 COMMISSIONER LEMAN: Have you been able to
21 observe what happens when money gets tighter?
22 Does small business get squeezed more in that field
23 or does it get a little more accommodation?

24 MR. MACAULAY: I cannot tell you but I would
25 think the tendency might be to give them more
26 accommodation, but there again it is just theory.

27 COMMISSIONER LEMAN: If it were so it would
28 be an offsetting factor?

29 MR. MACAULAY: Yes, indeed it would. It
30 doesn't help somebody to establish themselves, however.

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COMMISSIONER LEWIS: Yes, trade credit.

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1 COMMISSIONER LEMAN: Oh, no, not to start.

2 PROFESSOR TRIANTIS: But probably though it
3 would be more expensive to borrow indirectly than
4 from the banks.

5 COMMISSIONER LEMAN: Well, I think one could
6 observe that in the last two or three years there
7 has been over-all an extension of trade terms in
8 Canada.

9 MR. MACAULAY: Yes, I think that was part
10 of our argument too
11 when we say that much is consumed that might not be
12 were it not for credit no matter from what the source.
13 I think that I would want to make one point, Mr.
14 Leman, just before you leave it, in this exchange
15 that you and I have now just had. We do not deny
16 that small businesses are the customers of big
17 businesses. All we say is that they are not the
18 suppliers of big business to the extent that there
19 is apparently some concept in many people's minds.

20
21 COMMISSIONER MACKINTOSH: I should like to
22 ask you two or three questions about your section
23 on consumer credit. You advocate disclosure of the
24 financing charge, preferably, as I understand it,
25 as a rate; a rate of interest.

26 MR. MACAULAY: Or range of rates, yes.

27 COMMISSIONER MACKINTOSH: Finance companies
28 have argued that a good standard in their interest
29 is full disclosure in terms of the cash price, the
30 finance charge and any other incidental charges;



COMMISSIONER LEMAN: Oh, no, not to stand.

PROFESSOR TRENT: But possibly though it

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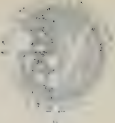


1 the time price, the exact amount and number of
2 instalments. They contend that the consumer understands
3 a dollar amount better than a percentage amount,
4 and that whatever he ought to be interested in, he or
5 she is predominantly interested in the monthly charge.
6 Now, we have had representations from the Consumer
7 Association that they want a percentage disclosure.
8 Everybody seems to agree that there is some doubt
9 as to the mathematics of the price rate that is
10 arrived at, but there does not seem to be any serious
11 evidence that you cannot arrive at an approximate
12 rate. Now, I take it that it is this approximate
13 rate of interest that you think should be disclosed
14 on every contract?

15 MR. MACAULAY: I think so, sir.

16 COMMISSIONER MACKINTOSH: It is not difficult
17 to manipulate that rate. I do not mean to state it
18 dishonestly, but it is relatively easy to put a little
19 more on the price and a little less on the rate of
20 interest and arrive at the same total result of the
21 transaction, but that, of course, has to be disclosed.
22 The question is, how many of the consumers are
23 sophisticated enough actually to make a meaningful
24 comparison?

25 MR. MACAULAY: The advantage it has, doctor,
26 it seems to me is this, that if you say it is subject
27 to certain manipulation and somebody puts their
28 rate up, it immediately makes it possible for that
29 person to have chosen some other source of supply
30 to start with, because he is now being charged more



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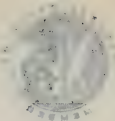
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MR. MACAULAY: The advantage it has, doctor,
it seems to me is this, that if you say it is subject
to certain manipulation and somebody puts their
name up, it immediately makes it possible for that
person to say, "I am not going to be manipulated."
So that it is a kind of a warning to the consumer.



1 than he would some place else. Now, if the interest
2 rate is then lower than some place else he has
3 at least an alternative. Two of the tendencies I have
4 noticed are; one, to sell in terms of a package deal
5 and another -- I do not know how general it is,
6 whether it is ubiquitous or not -- there is a tendency
7 for some people just to buy something, sign up, and
8 all the details get filled in a little later on the card
9 when it is being handed over to the finance company.
10 Now, there is a great deal more of that than you may
11 have had evidence of here.

12 I only say this because it happens that
13 every Wednesday evening for twelve years I have
14 conducted what I call a free legal aid clinic in
15 my constituency. I have seen over thirteen thousand
16 people myself, and I can say that 25 per cent of them
17 are involved in car transactions, and I would say
18 also that more than half of them are involved with
19 people who have them sign up, and have the details
20 filled in afterwards when it has been handed over to
21 the finance company. Now, you have asked for
22 examples and I am just able to give you very
23 many in this case. So, I do not know whether you
24 have seen this in the case of Mrs. Sammy Glutz when
25 she tells you what happens, or if you are seeing
26 a different group of people, but I am speaking for
27 Mrs. Sammy Glutz and I can tell you there is a lot
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1 of filling in that goes on afterwards. Now, whether
2 you can stop that, I do not know, me having said it,
3 but there you are.

4 COMMISSIONER BROWN: Is this a selective
5 control you are suggesting?

6 MR. MACAULAY: Well, I do not know what I
7 am suggesting. I likely just wasted three minutes
8 of your time.

9 COMMISSIONER MACKINTOSH: No, I think that
10 is valuable evidence. The larger companies insist
11 that they have a standard form and their policy
12 is that all these items be disclosed.

13 MR. MACAULAY: But, sir, look; there is
14 an awful lot that is purchased that the finance
15 companies finance in respect of which when the form
16 gets to them everything is disclosed, but there is
17 a lot of signing up done without much disclosure.
18 Now, there are several Bills at the moment pending
19 before our House; at least one that I know of directed
20 to this particular point -- private members' Bills,
21 but there is an apprehension, and there is a feeling
22 that: Well, what harm can it do and, if it may
23 do some good isn't it worth considering. Whether
24 this is a meritorious approach to take in this
25 matter I do not know.

26 PREMIER ROBARTS: You can draw an analogy
27 here to the provisions of our various securities
28 Acts where we require disclosure, for instance, in
29 prospectuses and we cannot guarantee that everybody
30 is going to read it, but nonetheless we do require
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prospectuses and we cannot guarantee that everybody

is going to read it, but nonetheless we do require



1 COMMISSIONER MACKINTOSH: In any properly
2 arranged deal the customer should have a copy of
3 the form he signs. You also say in this section that
4 you think it is not desirable to exert or
5 to assert any additional legislative controls over
6 financial intermediaries. Are you referring there
7 specifically to finance companies or are you including
8 trust and loan companies, and so on?

9 MR. MACAULAY: Well, I don't know. I think
10 our basic purpose in preparing this was to saddle
11 the general public with as little more or additional
12 legislation as was necessary.

13 There are people, you know, who make both
14 a vocation and an avocation of interfering in other
15 people's business. We try to approach this from
16 another direction. We don't have anybody specifically
17 in mind, do we?

18 MR. STEVENSON: There was no intention to.

19 COMMISSIONER MACKINTOSH: You point out also
20 that you observed a gap resulting from the Small
21 Loans Act and that there are very few loans made
22 between \$1,000 and \$1,500 because apparently the
23 interest ceiling is too low, and you think it would
24 be important if that interest ceiling were raised.

25 My recollection of the history of this is
26 that the size of what is called a small loan has
27 been increased historically; that it was originally
28 something like \$500, but it has gone on up and this
29 would seem to indicate that the size is a little
30 large for the actual practice, if they were to cut it



January 1934
New York

MEMORANDUM FOR THE BOARD OF DIRECTORS

Subject: The proposed amendment to the Federal Reserve Act, Chapter 136, Act of October 3, 1917, as amended.

The following is a summary of the proposed amendment to the Federal Reserve Act, Chapter 136, Act of October 3, 1917, as amended. The amendment is designed to provide for the establishment of a new Federal Reserve Bank for the District of Columbia. The amendment is designed to provide for the establishment of a new Federal Reserve Bank for the District of Columbia. The amendment is designed to provide for the establishment of a new Federal Reserve Bank for the District of Columbia.

MR. MACALEER: Well, I don't know, I think my basic purpose in preparing this was to make the general public with as little more or additional information as possible. There are people, you know, who make a vacation and an occasion of interest in other people's business. We try to approach this from another direction. We don't have anybody specifically in mind, do we?

MR. GARDNER: There was no intention to. COMMISSIONER MCKINNON: You point out also that you observed a gap resulting from the Small Loans Act and that there are very few loans made between \$1,000 and \$1,500 because apparently the interest ceiling is too low, and you think it would be important if that interest ceiling were raised. My recollection of the history of this is that the size of what is called a small loan has been increased historically. That it was originally something like \$500, but it has gone up and this would seem to suggest that the size of a small loan for the actual practice, it may vary to some extent.



1 off at \$1,000 and leave the \$1,000 and \$1,500 rate
2 free, and then presumably you would get business
3 done in this bracket?

4 MR. MACAULAY: Except that he is making a
5 small loan of \$1,600; there seems to be no problem
6 from \$1,500 up and no problem from \$100 to \$1,000,
7 but there is a problem in this particular area.

8 COMMISSIONER MACKINTOSH: He is not controlled
9 from \$1,500 up.

10 MR. MACAULAY: Oh, I see. Have you got
11 some comments?

12 MR. RICHMOND: This was simply a matter
13 of statistical fact which we discovered, and it has
14 been mentioned in various circles that either the
15 Act should extend above \$1,500 or we should do something
16 in this intermediate area to open it up so that they
17 will make loans. There is nothing specific there
18 except to take a look at it.

19 COMMISSIONER MACKINTOSH: I don't know whether
20 any of the others have questions to ask about this.

21 COMMISSIONER BROWN: There is one question,
22 and that is whether as a result of the action taken
23 by the Ontario Court of Appeals -- which came
24 after you prepared your brief -- you want to make
25 any recommendations about interest rates?

26 MR. MACAULAY: It is subject to appeal, that
27 is all I can say, that is the Unconscionable Transactions
28 Act.

29 COMMISSIONER BROWN: Yes.

30 MR. MACAULAY: It is subject to appeal, and



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small loan of \$1,000; there seems to be no problem

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COMMISSIONER MACKINTOSH: I don't know whether

any of the others have questions to ask about this.

COMMISSIONER BROWN: There is one question.

by the Ontario Court of Appeals -- which came

after you prepared your brief -- you want to make

any recommendations about interest rates?

MR. MACAULAY: It is subject to appeal, and

in all I can say, that as the Commissioner has

COMMISSIONER BROWN: Yes.

MR. MACAULAY: It is subject to appeal, and



1 I don't know that -- have you got any comments to
2 make on this? No.

3 THE CHAIRMAN: You can't make any comments
4 upon the merits of it or otherwise?

5 PREMIER ROBARTS: Perhaps we can put our position
6 this way; if the appeal is not successful, we think
7 there should be legislation that will stand the test.

8 COMMISSIONER BROWN: That is what we wanted
9 to get on the record. Thank you.

10 THE CHAIRMAN: It might have to be federal.

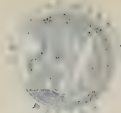
11 PREMIER ROBARTS: It might very well have to be
12 federal.

13 MR. MACAULAY: It would be much cheaper to
14 win the appeal!

15 COMMISSIONER MACKINTOSH: You are extending
16 the price economy too far!

17 If I could turn now to the next section
18 on the financing of exports. One of the striking
19 sentences is the statement that the question is how
20 we can give Canadian exporters better terms which
21 will assist them in capturing new markets. In what
22 way do you consider what is called the Export Credits
23 Insurance Act inadequate, and what would you like
24 to see added to it?

25 MR. MACAULAY: One thing was added recently
26 or, in any event, it has been announced that
27 the Export Credit Corporation will grant credit
28 directly to foreign governments. This was, as I
29 understand it, something that was not available
30 before and in view of the fact that as I said this



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1 morning one third of the world is under the domination
2 of Communist regimes, and they represent a large
3 market, we can't ignore that it may well be more
4 attention should be given in this area.

5 COMMISSIONER MACKINTOSH: My recollection
6 is that they have also increased the limit on loans
7 or, rather, that they may be in the process of doing
8 it.

9 MR. MACAULAY: And I think they have voted
10 some more money to the fund.

11 COMMISSIONER MACKINTOSH: That is what I meant.

12 MR. MACAULAY: As I implied, however, the
13 voting of more funds, more money to a fund, the
14 size of the whole going into it isn't nearly as
15 important as the size of the whole going out of it,
16 if you know what I mean, and if they don't change
17 their terms of reference -- I don't know whether
18 they have used it, but certainly in the case of
19 I.D.B. they have by no means exhausted the tremendous
20 funds that they have on hand, if loading means
21 anything.

22 COMMISSIONER MACKINTOSH: In what respect
23 do you think their terms ought to be changed?

24 MR. MACAULAY: Well, as we explain in this
25 brief, the tendency in the past has been to have
26 untied loans, and untied loans or credit is normally
27 done in the field of 60 days, 90 days, a year,
28 two years, 36 months, or whatever it may be, and
29 once you get into the field of engineering and
30 sort of immense things like a nuclear reactor for



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1 India or a dam for Egypt, or some of these technical
2 studies that have been done by Canadian companies
3 in the banana republics, you may be getting into
4 25-year term stuff, and we feel that the length
5 of the period for credit is now a characteristic
6 of the transaction and that it may very well be
7 that this is an area that your Commission should
8 seriously look at to see whether the length of the
9 terms should be extended.

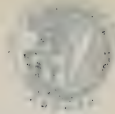
10 COMMISSIONER MACKINTOSH: On your earlier
11 reference to untied loans, the insurance part of
12 the Act covers the transaction, there is no question
13 of it being tied or untied, it relates to the specific
14 export contract, and I think you will find that
15 all the loans relate to specific export proposals,
16 so that they are in effect tied loans; they are not
17 money given to a foreigner to spend as he pleases.

18 Your other point, that they haven't perhaps
19 got into long enough periods for some classes of
20 exports is a point to be considered.

21 MR. MACAULAY: Well, doctor, I am afraid
22 then I have failed to distinguish clearly, because
23 of my inability of definition, between tied and untied
24 transactions.

25 A tied transaction is when a man will buy
26 only if he can get credit. An untied transaction
27 is when he buys but the seller may be able to
28 negotiate, apart from the purchaser, some kind of
29 credit.

30 COMMISSIONER MACKINTOSH: The use of tied and



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COMMISSIONER MACKINTOSH: The use of tied and



1 untied loans that I was familiar with was quite
2 different from that.

3 PROFESSOR TRIANTIS: The brief doesn't complain
4 that the loans are not tied; we are just showing
5 the development of credit in the national field
6 as compared with the past. What the brief is
7 suggesting, and I think the emphasis is on this
8 term "better terms", is that there has been a study
9 by the Canadian Trade Committee showing that the
10 Canadian exporter gets just as good terms as the
11 exporters in other countries. We want to put the
12 emphasis on the fact that that is not enough; we
13 want to be a step ahead because of the importance
14 of export trade for Canada, so it is not enough
15 for the Canadian Trade Committee or anybody else
16 to say that the Canadian exporter gets as good
17 treatment as the German exporter, where export trade
18 is not as important. That is a fact, and we should
19 always be a step ahead.

20 MR. MACAULAY: That is the point which we
21 are trying to make.

22 COMMISSIONER MACKINTOSH: Where does this
23 lead you?

24 MR. MACAULAY: Well, it means that people
25 are constantly trying to catch up with you, I guess.

26 PROFESSOR TRIANTIS: You either have to
27 be a step ahead or go behind, and we can't do that,
28 we have to be a step ahead.

29 MR. MACAULAY: We have a greater dependence
30 upon exports than do many nations; in any event, we



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1 have a large dependence upon them and if we are
2 able to , and since we are developing an area of
3 tied transactions and the quality of one's goods
4 and the price are no longer the sole criteria as to
5 whether the sale will be made, therefore if we can
6 offer little better terms by way of credit we will
7 really be able to make the sale. I think this is
8 the point we are trying to make.

9 Where it leads you or how far we have to
10 be ahead, I don't know, but our respectful submission
11 is that it is incumbent upon us to look at the terms
12 which we offer and the terms other nations offer
13 and see if there is any way in which we can better
14 them. In short, we shouldn't just respond to the
15 fact that somebody is running ahead of us all the time;
16 it may be well worthwhile looking to see if we can
17 get ahead of somebody else.

18 MR. STEVENSON: I think that the history
19 of the past four or five years has perhaps justified
20 this. I think four or five years ago it might have
21 been said that this country was slightly behind
22 some of its leading competitors in the terms it
23 could offer, but since then I think a number of
24 measures have been taken to bring things into
25 balance again.

26 COMMISSIONER LEMAN: Is it the country that
27 has the most capital to export that wins this race
28 in the end?

29 MR. STEVENSON: It could be.

30 COMMISSIONER MACKINTOSH: One of the



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1 recommendations we have had from another group has
2 been that it would be applied all to Canadian construction
3 contracts abroad, even though they involve no Canadian
4 materials and comparatively little in the way of
5 engineering services. It seems to me to be perhaps
6 a moot point, though doubtless valuable to construction
7 companies.

8 MR. MACAULAY: Just on that point, if I may;
9 there are two ways in which we will correct our
10 imbalance of payments, one is by selling an object
11 and getting cash back, and another is by doing
12 something some place outside of our country and
13 getting cash back, dividends, interest, royalties,
14 agency fees, or something else.

15 Now, if by financing something we are
16 going to get cash back, and we have some reasonable
17 security in relation to what we are financing, this
18 is then one of the significant ways in which we
19 will correct the balance of payments. If one of
20 our long range programmes is the reasonable balance
21 of payments over a number of years, then it may
22 well be that this -- whether it is a moot point or
23 not -- is worth looking at.

24 COMMISSIONER MACKINTOSH: That is what I
25 meant by a moot point; it was worth discussing.

26 MR. MACAULAY: Oh, I am sorry.

27 COMMISSIONER MACKINTOSH: It turns on how
28 much service there is in the contract.

29 MR. MACAULAY: Yes.

30 COMMISSIONER MACKINTOSH: And how much

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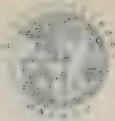
COMMISSIONER MACKINTOSH: And how much



1 is involved in that I have no immediate judgment
2 on. Have you any specific things in mind in urging
3 such arrangements for providing credit or guarantee
4 facilities to Canadian producers who will replace
5 imports?

6 MR. MACAULAY: Well, it may be that this
7 field is basically a tax incentive field. There
8 are a number of ways in which you can approach it.
9 You can approach it on the grounds, perhaps, of
10 companies who employ more labour than over a standard
11 base on an earlier period. It might be the persons
12 who put increased plant into operation over a standard
13 base of an earlier period. It might be people who
14 can distinguish the kind of operation that they
15 are now undertaking to show that they were directing
16 it at a replacement of something which was high on
17 the import list. It may be in terms of simply giving
18 them a greater write-off. I am not sure.

19 We have prepared a number of submissions. --
20 we are full of submissions -- on tax incentives and
21 you see, frankly, this tax incentive business, it
22 is like giving away anybody else's money; you are
23 limited only by your own imagination -- subject to
24 the approval of the Premier, I mean. I think this
25 may be beyond your purview, but we would like you to
26 consider this as a problem because, quite frankly,
27 people can talk all they like about correcting
28 the balance of trade in this country, but until we
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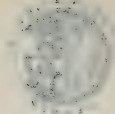


1 actually make a sacrifice about doing something
2 in terms of our imports, then we will be in the dark,
3 in my opinion.

4 Now, we have a problem; we don't export
5 enough and we import too many things which we could
6 well make in this country. I don't think we should
7 cut them out; we should cut them down. If we
8 can't get people to do it by their own initiative,
9 it may be that we will have to encourage them to
10 do so. I think at least this is something -- or,
11 I hope it is something -- which your Commission would
12 look at, and we hope that you will come up with
13 something even more fertile than the eight different
14 approaches which we have taken. You have this
15 advantage, you don't have to get the Premier to
16 approve it!

17 COMMISSIONER MACKINTOSH: For the moment
18 the shift of, say, 12 per cent in the exchange
19 rate, plus 10 or 15 per cent surcharge gives quite
20 a good ---

21 MR. MACAULAY: But that is a very nebulous
22 kind of thing, because in every paper you pick up
23 something has been knocked off the surcharge list,
24 and it runs counter to the spirit of GATT, and every
25 country has been agitating that the entire thing
26 be removed. We may get to the stage where we will
27 be embarrassed by our own riches, and the Federal
28 Government may^{not} be able to hold the dollar down
29 to 92½ cents, although I assume that this may be
30 sometime after, but it is a problem.



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1 COMMISSIONER MACKINTOSH: The Commission
2 doesn't entertain any suspicions on the stability
3 of the exchange rate.

4 MR. MACAULAY: With great respect, I don't
5 think we should predicate an export programme or
6 an import replacement programme in the future on
7 something as unstable as the value of the Canadian
8 dollar or the impost fees. I think it is not a
9 sufficiently strong belief in the concept of our
10 own national virility that we should have to rely
11 on these artificial stimulants to get our people
12 up off the chair.

13 COMMISSIONER MACKINTOSH: If you assume that
14 the Canadian dollar is unstable, what good are
15 your incentives?

16 MR. MACAULAY: I don't mean unstable, I
17 mean variable.

18 COMMISSIONER MACKINTOSH: Assume it is
19 variable, what good are your incentives if they are
20 going to be offset?

21 MR. MACAULAY: This may be so, but I have
22 great faith that it will be extended in the sense
23 that it will keep climbing rather than dropping
24 further down.

25 COMMISSIONER MACKINTOSH: Well, I will stop
26 on that note.

27 COMMISSIONER GIBSON: Mr. Chairman, following
28 on the same thing, from the standpoint of stimulating
29 and the standpoint of the general health of the
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MR. MAGALUAY: With great respect, I don't think we should predicate an export programme or an import replacement programme in the future on something as unstable as the value of the Canadian dollar or the import fees. I think it is not a sufficiently strong belief in the concept of our own national vitality that we should have to rely on these artificial stimulants to get our people up off the chair.

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COMMISSIONER GIBSON: Mr. Chairman, following on the same thing, from the standpoint of stimulating and the standpoint of the general health of the country, you like the fixed exchange rate or the



1 variable exchange rate or a free exchange rate, let
2 us say?

3 MR. MACAULAY: I frankly don't know that
4 we have studied this point, and in view of that fact,
5 that there are a number of opinions on it, I would
6 certainly want to consult with the people I am
7 with before I answer.

8 My own view is that I wasn't very pleased
9 with the bouncing exchange rate not when it was fixed
10 as low as it is, but I am inclined to think that in
11 our own country we are better off to try
12 a pegged exchange rate.

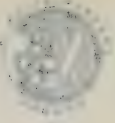
13 COMMISSIONER GIBSON: Don't you think, as
14 Dr. Mackintosh suggested, that the current rate
15 should have substantially stimulating factors?

16 MR. MACAULAY: I don't deny that, but I don't
17 think there is any permanency in this kind of a thing,
18 and what I am trying to do is to create an atmosphere
19 of competitiveness in our people and in our province;
20 a desire to help themselves other than by artificial
21 means, and I must admit, I suppose, that you may
22 say incentives are artificial; this is the part
23 you are getting at, so I must admit you box me in.

24 COMMISSIONER GIBSON: That was very quick.
25 I was very interested in the analysis in this last
26 section on balance of payments, import capital.
27 It is section 43. The analysis here ---

28 MR. MACAULAY: I am sorry, Mr. Gibson, what
29 paragraph, sir, are you referring to?

30 COMMISSIONER GIBSON: I will refer to



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MR. MACAULAY: I am sorry, Mr. Gibson, what

paragraph are you referring to?

COMMISSIONER GIBSON: I will refer to



1 paragraph 114 in particular, which is on page 44.
2 The area here is on pages 43 to 46. The suggestion
3 here is that our dependence upon foreign capital
4 may not diminish very much in future.

5 MR. MACAULAY: Quantitatively.

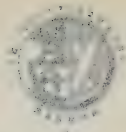
6 COMMISSIONER GIBSON: Pardon?

7 MR. MACAULAY: Our dependence on foreign
8 capital may not diminish very much quantitatively,
9 but it may vary qualitatively.

10 COMMISSIONER GIBSON: Yes. I just wanted
11 to get exactly what you meant by that. You mean
12 that we are looking forward to running a big current
13 account deficit for a long way ahead. I heard you
14 say you thought we had to gradually cut this
15 down, and yet a need for capital means a big deficit?

16 MR. MACAULAY: Not if it is accompanied by
17 a major export effort or licensing, royalty or
18 other agreements which will give rise to income
19 coming into Canada.

20 The fact that we may rely on foreign capital
21 doesn't necessarily imply an imbalance, and it
22 depends on what the foreign capital is invested in.
23 If it is invested in equities which go on forever
24 creating dividends, this is one problem, but if it
25 is invested in municipal or federal or provincial
26 bonds which have an end unto themselves, and no
27 control being involved in them, this is another
28 matter.
29
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MR. MACAULAY: Quantitatively.
COMMISSIONER GIBSON: Pardon?
capital may not diminish very much quantitatively,
but it may vary qualitatively.
COMMISSIONER GIBSON: Yes. I just wanted
to get exactly what you meant by that. You mean
that we are looking forward to running a big current
account deficit for a long way ahead. I heard you
say you thought we had to gradually cut this
down, and yet a need for capital means a big deficit?
MR. MACAULAY: Not if it is accompanied by
other agreements which will give rise to income
coming into Canada.
The fact that we may rely on foreign capital
doesn't necessarily imply an imbalance, and it
depends on what the foreign capital is invested in.
If it is invested in equities which go on forever
creating dividends, this is one problem, but if it
is invested in municipal or federal or provincial
bonds which have an end unto themselves, and no
control being involved in them, this is another



1 So unless one qualified the kind of investment the
2 money is going to go into, and that kind of thing,
3 I think it is hard to assume that by encouraging
4 or even bringing about foreign investment in this
5 country we will necessarily produce any worse
6 position than we are in at the moment.

7 COMMISSIONER GIBSON: I am not questioning
8 the point about the desirability of importing foreign
9 capital, but if you have a net import of foreign
10 capital then you must have a net deficit on your
11 current account.

12 MR. MACAULAY: Yes. I am sorry. I thought
13 you meant just an investment of foreign capital.
14 I missed the word "net" there.

15 COMMISSIONER GIBSON: If you get a capital
16 import net you must have a current account deficit.

17 MR. MACAULAY: Yes, sir.

18 COMMISSIONER GIBSON: And I take it from
19 what you say that you feel very strongly that we
20 should be working towards reducing this deficit.

21 MR. MACAULAY: Yes, sir.

22 COMMISSIONER GIBSON: What are the implications
23 of that? What are the implications of reducing the
24 debt? If we find it convenient and stimulating
25 to have a significant amount of direct investment
26 from abroad in new industries, and that kind of
27 thing, and if the provincial governments and
28 municipalities find it economical to borrow abroad
29 in a sizeable way -- these are the two elements
30 in the import of capital upon which you put some



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1 emphasis -- can we gradually get a better servicing
2 of our accounts? What is going to happen? Are
3 we going to become a sizeable capital exporter on
4 the other side? Maybe this is too hypothetical an
5 exercise, but do you suggest that we need to import
6 capital, because we still want to reach a balance
7 in our accounts within a reasonable period of time.

8 MR. MACAULAY: Well, with respect, Mr.
9 Gibson, I do not really feel that those objectives
10 are incompatible.

11 COMMISSIONER GIBSON: They are statistically.
12 It depends upon what meanings you put on words.

13 MR. MACAULAY: No, with respect, I do not
14 think that statistically they are, unless you leave
15 out another essential ingredient, and that is a
16 real major thrust in terms of exports.

17 COMMISSIONER GIBSON: That will earn you more
18 income and help you to balance your current accounts?

19 MR. MACAULAY: Yes.

20 COMMISSIONER GIBSON: So will your royalties.

21 MR. MACAULAY: Yes, but it helps to leave
22 us in a less unbalanced sort of a deficit situation.
23 Thus, in the years ahead, I think you can work
24 towards a lessening of the difference between the
25 amount of cash coming in and the amount of cash
26 going out. Even though you are a big importer of
27 capital you may become an increased exporter of
28 hard goods which will return to you more cash.

29 COMMISSIONER GIBSON: You will be an exporter
30 of capital?



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1 MR. MACAULAY: You might be, sir. You might
2 be an exporter of capital.

3 COMMISSIONER GIBSON: There is one other
4 point. Going back to consumer credit your brief
5 says that apart from measures having to do with
6 conditional sales contracts, etc., that you did not
7 see any need for specific controls or regulations
8 over matters that affect the financial intermediaries
9 that are engaged in such transactions. Earlier on
10 in your brief -- and this is a point that puzzles
11 me a little -- there is quite a little emphasis
12 placed upon selective controls, and the three areas
13 specified as being areas which were not, perhaps,
14 much affected by tight money were, as I remember it,
15 inventories, sales of consumer durable goods, and
16 land speculation. Now, the sales of consumer durable
17 goods are usually made under conditional sales
18 contracts. What kind of selective control do you
19 envisage there?

20 MR. MACAULAY: I think you are suggesting
21 that there is a contradiction in the fact that we
22 are saying no legislation ---

23 COMMISSIONER GIBSON: No, I am asking for
24 enlightenment.

25 MR. MACAULAY: Superficially, it sounded
26 to me as well that there was a contradiction, but
27 I think really what we had in mind was that there
28 was no need for more legislation to control the
29 morality of a consumer transaction, but that we
30 may need to have selective controls as to what credit



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1 is given during certain periods of time. With
2 respect, I do not think those two points are contradictory.
3 Is not this the point?

4 MR. STEVENSON:

5 We would like to see the rate of interest
6 stated in this way, but we do not want to impose
7 anything else on these finance companies.

8 MR. MACAULAY: That is by having them fill
9 out different forms, and such other nuisance legislation.

10 PROFESSOR TRIANTIS: I wonder if the consumer
11 wants this sort of statement in the contract. As
12 Dr. Mackintosh has said, why on earth would the
13 finance companies not supply that information just
14 to please the consumer. But, the consumer is asking
15 for something more.

16 MR. MACAULAY: Is he really, or is it just
17 that a number of people are asking for it -- people
18 who are trying to be busy.

19 PROFESSOR TRIANTIS: It seems there is something
20 fishy. Why will the finance companies not do it?

21 MR. MACAULAY: But, is the consumer really
22 asking for it, or is it somebody who is trying to
23 keep busy by thinking of things to do who is asking
24 for it?

25 COMMISSIONER GIBSON: On this question of
26 consumer credit controls have you any particular
27 thoughts as to provincial activity in this field?

28 MR. MACAULAY: Do you mean as to morality
29 or to disclosure ---

30 COMMISSIONER GIBSON: No. I do not know



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MR. MAGAULAY: Do you mean as to mobility



Nethercut & Young

Toronto, Ontario

- 7164 -

1 whether there is a constitutional problem involved
2 here, or not. There might be.

3 MR. MACAULAY: It sounds as if there might
4 be. It is likely to come in under banking or
5 interest rates.



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1 PREMIER ROBARTS: I think our assumption
2 has always been that there is.

3 COMMISSIONER GIBSON: That there is
4 a constitutional problem?

5 MR. MACAULAY: Yes.

6 PREMIER ROBARTS: That it is not within
7 provincial jurisdiction. This is the point that is,
8 in fact, before the courts today with respect to
9 the Unconscionable Transactions Relief Act.

10 THE CHAIRMAN: I am not so sure. I
11 think this is a different point.

12 COMMISSIONER MACKINTOSH: May I venture
13 a lay opinion that the disclosure of the rate of
14 interest without any attempt made at controlling the
15 rate would be pretty clearly within provincial
16 jurisdiction.

17 MR. MACAULAY: I would have thought so.
18 I was going to say, Mr. Gibson -- perhaps the Rowell-
19 Sirois report should not be raised here, but if we
20 have in mind the development of this country and
21 any reasonable flow of investment moneys from outside
22 as well as from our own jurisdiction, I think it would
23 be unfortunate if all the provinces got into this
24 business of credit restrictions, and so forth. That
25 would have a balkanizing effect on Canada, and I think
26 we have tried in this brief to show you that we are
27 not here to grind any axes. We are trying to bring
28 things before you that we think will be helpful to
29 our province.

30 COMMISSIONER GIBSON: The only reason I



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COMMISSIONER GIBSON: The only reason I



1 asked this question was because the only time the
2 federal government has exercised any control in this
3 area of consumer credit has been in emergency conditions
4 such as during the war and the Korean crisis.

5 MR. MACAULAY: Perhaps they felt that
6 those were the only times they could politically
7 justify it, but that does not mean that that is the
8 only legal time they could have brought it about.

9 COMMISSIONER BROWN: I have one question
10 I would like to ask about foreign investment. Do
11 you recommend the removal of the withholding tax
12 on provincial and municipal bonds? If my recollection
13 is correct, the withholding tax has applied for a long
14 time on Canadian pay municipal issues. The new
15 imposition was only in respect of American pay
16 municipal issues. So far as the municipalities are
17 concerned, what I would like to have cleared up is
18 what your recommendation is. Is it your recommendation
19 that it be removed entirely, or removed from those
20 to which it did not apply prior to December of 1960?

21 MR. MACAULAY: I think we would rather
22 remove what we have called the thinly excusable
23 restrictions which discouraged investment by persons
24 beyond our borders in our provincial and municipal
25 issues. I would think we are inclined towards the
26 removal of whatever kind of withholding taxes there
27 are. Is this right?

28 PROFESSOR TRIANTIS: Yes.

29 COMMISSIONER BROWN: The other point
30 I would like to ask you about is with respect to



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I would like to ask you about is with respect to



1 institutions. We have heard from the trust companies,
2 from the credit unions, from the Quebec Savings Bank,
3 and so on, but we have not heard from the Ontario
4 Savings Bank. I understand our research staff is
5 getting some information for us, but I wonder if you
6 could outline to us the policy that is followed with
7 respect to the Ontario Savings Bank. Are these funds
8 used for any specific purpose? Does the interest rate
9 vary with the monetary policy? Does the interest
10 rate go up when other interest rates go up?

11 MR. ALLAN: We have followed the policy
12 of paying the same rate of interest on savings deposits
13 that is paid by the chartered banks. The difference
14 in our policy is that we pay that interest on a
15 minimum monthly balance, which gives the depositor
16 a little advantage over the depositor in a chartered
17 bank. Our savings remain fairly steady at between
18 \$70 million and \$80 million.

19 Now, when the bank was established many
20 years ago, I understand that at that time there was
21 thought of using the funds for some particular purpose,
22 but during later years those funds have been available
23 for the use of the government and they have furnished
24 loan capital, really, to the government at an interest
25 rate that has been satisfactory to the government.

26 COMMISSIONER BROWN: In other words, they
27 have not been used for any of these other ancillary
28 purposes?

29 MR. ALLAN: They have been used for
30 general government purposes.



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COMMISSIONER BROWN: In other words, they

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MR. ALLAN: They have been used for

Ontario, Ontario



1 MR. MACAULAY: There have been all kinds
2 of recommendations made that they should be used for
3 development and investment in this kind of thing, and
4 that, but the difficulty is -- I think the experience
5 was during the 1930's that it becomes very difficult
6 when the money is, in effect, there on demand, to have
7 it placed in and out of solid concrete forms. Is
8 not this right?

9 MR. ALLAN: Well, the judgment has been,
10 during later years, -- and quite a number of years --
11 to use those funds in the way I have indicated.

12 COMMISSIONER MACKINTOSH: May I just
13 interject one thing. Your mention of the 1930's
14 reminded me of it. There seems to be a lot of opinion
15 that foreign equity investment is disadvantageous
16 at the present time. In the latter part of the 1930's
17 the great complaint was that foreign investment
18 was all fixed term and, therefore, a dead weight not
19 dependent upon earnings, and a tremendous burden
20 on the economy. We may find in the 1970's that we
21 are back to the earlier concept.

22 MR. MACAULAY: I do not think you will
23 find that we have said that. We have said it should
24 be mixed. We have asked you to emphasize the advantages
25 and the disadvantages.

26 COMMISSIONER MACKINTOSH: I was not
27 referring specifically to your brief, but to some
28 of the other discussion we have had. I am old enough
29 to remember some of these things, and I am even encouraged
30 at finding the government of the province of Ontario



1 seeing something worthwhile in the Rowell-Sirois report.

2 THE CHAIRMAN: That concludes the discussion,
3 gentlemen. We appreciate very much your presence
4 here, and the contribution you have made. You
5 have been of great assistance to us. Your remarks
6 have been not only instructive, but at times they have
7 been decidedly colourful.

8 PREMIER ROBARTS: May I thank you, sir,
9 for your kind attention to our submission. We have
10 enjoyed presenting it to you.

11 THE CHAIRMAN: We shall adjourn now until
12 Thursday morning next at 9.15 to hear the submission
13 of the Broker-Dealers' Association of Ontario.

14
15 --- Adjournment.
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Royal Commission on Banking and Finance

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Hearings
held at
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6 TO THE

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9 OCTOBER, 1962
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24 Presented by

25 Hon. John P. Robarts

26 Prime Minister of Ontario
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SUMMARY

I

The overall function of Canada's financial and monetary system and policies, or for that matter of our whole economic system, is to achieve a satisfactory rate of economic growth, full employment, stability of incomes, and an equitable distribution of the national product. Among the intermediate objectives in achieving our basic goals we include stability of prices, economic flexibility and well balanced trade and payments relations with the rest of the world. It is the view of the Government of Ontario that the over-riding goal of economic and financial organization and policy should be economic growth, and that the chief test of the structure, functioning and policies of our financial and monetary system must be the extent to which it has and can serve this important goal.

The other goals of course cannot be neglected. Decision on the desirable mix of goals to be pursued is a difficult one. It involves political and ethical, as well as economic considerations. It would seem clearly desirable from time to time to have a public announcement by the Government of Canada of the particular combination of goals at which the economy is aiming. Such an announcement would serve as a beacon of the direction in which public policy is leading the economy, and would place any public discussion about the feasibility and desirability of

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is aimed. Such an announcement would serve as a

focus of the discussion in which public policy is
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1 the combination chosen on a firm basis.

2 In any event, we recommend that the Govern-
3 ment of Canada state explicitly that economic growth
4 is the primary economic goal of the Government of
5 Canada, and that this goal should be specifically
6 stressed in the preamble to the Bank of Canada Act.
7 Further, we consider it imperative that the relationship
8 between the Government of Canada and the Central Bank
9 be clarified with respect both to the responsibility
10 for choosing the goals of monetary and related policies,
11 and the ultimate responsibility for the policies used
12 in pursuing the chosen goals. There should be no
13 shadow of doubt that final decisions in these matters
14 rest exclusively with the Federal Government.

15 II

16
17 The Province of Ontario is of the opinion
18 that there is a growing need in Canada for an indepen-
19 dent and national in scope institution of economic
20 and business research. We strongly urge the estab-
21 lishment of a National Institute for Economic Research.
22 The Government of Ontario is prepared to cooperate in
23 a private or public venture in order to create such
24 an organization.

25 The Government of this Province has come to
26 the conclusion that more effective channels of business
27 communication are needed for the adequate functioning
28 of our economy. This point was brought repeatedly to
29 our attention in the preparation of this submission.
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It is the channels and effectiveness of



1 business communication in the broadest sense are
2 required more urgently than any change in the number
3 and size of the financial institutions and their
4 methods of finance. We ask your Commission to
5 emphasize this problem and to give full consideration
6 to ways by which improvements may be achieved.

7
8 III

9 In our brief we have stressed at length the
10 importance of investment in human capital or intangible
11 assets in contributing to increases in productivity
12 and economic growth. We have indicated that studies
13 carried out in the United States suggest that the return
14 on human capital in the form of investment on education
15 has been at least equal and has probably exceeded the
16 return on investment in physical capital. We urge
17 that your Commission emphasize the tremendous importance
18 for economic growth and social progress of investment
19 in human capital.

20 Investment in human capital - public expend-
21 itures on health, welfare and education - is one of
22 the chief responsibilities of provincial and municipal
23 governments in Canada. We cannot help stressing that
24 Canadian economic growth will depend in the future on
25 substantial increases in provincial and municipal
26 expenditures on these services, and there is every
27 indication that the share of public expenditures on
28 education and health in the total national expenditure
29 will expand very considerably in the foreseeable future.

30 The strains that increased expenditures on



1 these items will place on our tax revenues are of first
2 importance if we are to achieve our goal of promoting
3 a satisfactory rate of economic growth. In the course
4 of the submission, we consider the problems associated
5 with the growing responsibilities of provincial and
6 municipal governments and the type and nature of their
7 tax revenues. We urge that your Commission consider
8 fully the problems of provincial and municipal finance
9 and the possible repercussions the continuance of the
10 present unsatisfactory situation of inadequate provin-
11 cial and municipal revenues will have on Canada's
12 future. Questions of availability and cost of credit
13 to provincial and municipal governments are closely
14 related to the nature, volume and flexibility of tax
15 revenues. In view of the importance of government
16 revenues and expenditures at all levels in present-
17 day Canada, reforms of credit institutions, methods
18 and policies must go hand in hand with a rational
19 reorganization of our fiscal structure.

20 The nature of the bulk of expenditures which
21 the province and the municipalities will be called
22 upon to make in the coming years draws attention also
23 to the problem of short-run fluctuations in their
24 revenues. It is obvious that a short-period decline
25 in the rate of growth of total financial resources of
26 provincial and municipal governments might require
27 drastic restrictions on the expenditures of these
28 governments in important areas of social and economic
29 development. We suggest that your Commission examine
30 on the one hand the variability of the various public



1 expenditures of the three levels of Government as they
2 relate in the short run to economic stability and in
3 the long run to economic growth, and on the other hand,
4 the cyclical variability of the various tax revenues.
5 We recommend that adjustments in the distribution of
6 tax revenues be made between the various levels of
7 government which would facilitate the need of provincial
8 and municipal governments for cyclically stable and
9 steadily growing tax revenues. The Federal Government
10 would then have control of those taxes whose revenue
11 normally changes cyclically and which are subject to
12 easy manipulation in contra-cyclical policies.

13 In order to promote federal-provincial
14 cooperation in the development of contra-cyclical
15 policies we recommend that machinery be devised for
16 regular consultation between the Federal and Provincial
17 Governments on the state of the Canadian economy and
18 the possibility of concerted governmental policies
19 to promote economic stability and growth. Total
20 provincial government expenditures have become as
21 important as the expenditures of the Federal Government.

22 The Province of Ontario is convinced that
23 changes towards a policy of tight credit affect the
24 finances of provincial and municipal governments and
25 investment projects considerably more than they affect
26 the financing of business investment. In our view,
27 short term changes in the supply of credit for financing
28 investment in human and other capital by provincial
29 and municipal governments may have serious long-term
30 consequences. We suggest that in formulating policies

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1 for changes or reforms in the techniques and policies
2 of monetary control your Commission should bear in
3 mind the following considerations:

4 (a) The likely contribution of the various
5 sectors of the economy to strong inflationary or
6 deflationary measures.

7 (b) The state and effectiveness with which
8 the various sectors respond to changes in credit policy.
9 Special consideration should be given to the speed and
10 effectiveness with which expenditures in the various
11 sectors are able to recover when a policy of tight
12 money is relaxed.

13 (c) The need in pursuing policies of stabil-
14 ization of prices, employment and incomes to avoid
15 discouraging or unduly affecting the long-term
16 prospects of those sectors of the economy which
17 constitute the core and basis of any policy of growth,
18 specifically of the provincial and municipal govern-
19 ments.

20 In view of the significance of the volume
21 and nature of provincial and municipal expenditures
22 and of the special credit problems which monetary
23 and exchange rate policies present for these govern-
24 ments, we recommend that provision be made for
25 provincial government representation on the Board of
26 Directors of the Bank of Canada.

27 IV
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29 The Government of Ontario is particularly
30 concerned with the problems of financing of small



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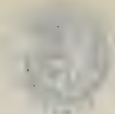
IV.

The Government of Ontario is particularly
concerned with the problems of financing of health



1 business in Canada. We are convinced that the
2 importance of small business to the continued economic
3 growth and social development of Canada has been all
4 too often neglected or misunderstood.

5 There are three specific matters we wish to
6 bring to the attention of your Commission. First, the
7 Government of Ontario feels that the provision of
8 expert advice on economic, financial and business
9 matters would make an important contribution to the
10 solution of financial problems of many small firms.
11 We have already taken steps to provide such advice
12 through the establishment of a division within the
13 Department of Economics and Development of the
14 Government of Ontario. Second, we feel that the
15 problem of supplying small business with an adequate
16 supply of long-term equity capital should be handled
17 more forthrightly than it is at present. In particular,
18 we feel that it would help if the Industrial Develop-
19 ment Bank's purposes were spelled out clearly in the
20 appropriate legislation. In our view, the Industrial
21 Development Bank has not fulfilled the function of
22 a development bank. The Government of Ontario has this
23 issue under careful study and we are considering the
24 establishment of a provincial fund which would supple-
25 ment existing financial institutions in the field of
26 industrial development and serve the purpose of economic
27 decentralization. Finally, the Government of Ontario
28 feels that there would be a great deal of merit in
29 introducing policies and techniques for the selective
30 control of credit so that small businesses could be



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a development bank. The Government of Ontario has this issue under careful study and we are considering the establishment of a provincial fund which would support many existing financial institutions in the field of industrial development and serve the purpose of economic decentralization. Finally, the Government of Ontario feels that there would be a great deal of merit in introducing policies and techniques for the selective control of credit so that small businesses could be



1 given special consideration in periods of tight money.
2 We have also considered carefully the purposes and
3 consequences of the ceiling of interest rates charged
4 by banks and we recommend that it be raised.

5
6 V

7 We have carefully studied the problems
8 associated with consumer credit in Canada today. In
9 our view, your Commission should urge that it be made
10 compulsory for all institutions extending consumer
11 credit to declare, on a comparable basis, the effective
12 rate or range of rates which they charge in each
13 particular transaction. It may not matter particularly
14 if the consumer does not know the exact rate of interest
15 he is paying but it would help him a great deal if he
16 were enabled to compare and decide where he could get
17 credit most cheaply. We also recommend that your
18 Commission examine closely the legislation covering
19 small loans companies.

20
21 VI

22 We cannot help emphasizing the importance
23 which this Government places on foreign trade as an
24 integral part of any program to achieve a satisfactory
25 rate of economic growth in Canada. We should like to
26 stress the role of finance in any national effort to
27 maintain and expand our position as a great trading
28 nation. Trade we must, and the effectiveness and
29 expediency with which our financial system can support
30 our efforts to export must be an important yardstick

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1 by which we shall measure its adequacy today, tomorrow
2 and for a long time to come.

3 We draw your Commission's attention to the
4 changing credit requirements for financing international
5 trade. We note that there has been an increasing
6 tendency for commercial loans to be tied to materials,
7 equipment, engineering and other services and consumer
8 goods, and that export credit often tends to be of
9 long-term duration, reaching 15 to 20 years or more.
10 We also note that export credit has become generally
11 more risky. Hence, we are sceptical about the adequacy
12 of traditional institutions and methods of financing
13 foreign trade. We hope that your Commission will study
14 ways in which private credit institutions may pool
15 resources, lengthen terms of credit and provide for
16 the expansion of credit to communist and other govern-
17 ments. You may wish to consider various inducements
18 that the Canadian Government might offer in order to
19 promote the new types of export credit required. The
20 Governments of other countries are becoming increasingly
21 aggressive in terms of export credit and export credit
22 guarantees. It is not enough for this country to
23 assume that its exporters enjoy just about as good
24 terms of export credit and insurance as their competitors
25 in other countries. The question is how we can give
26 the Canadian exporter better terms and help him in
27 capturing new markets.

28 The Government of Ontario wishes to draw the
29 attention of your Commission to another avenue of
30 promoting Canadian employment and economic growth.

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the Canadian exporter better terms and help him in

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The Government of Ontario wishes to draw the

attention of your Commission to another avenue of

export credit.



1 We are impressed by the very considerable possibilities
2 which exist in this country for producing a great
3 variety of manufactured and semi-manufactured products
4 which are now being imported. We believe that special
5 arrangements for credit and guaranteeing facilities
6 serving this particular purpose would be helpful.

7 With respect to short-term changes in monetary
8 policy, the Government of this Province wishes to draw
9 your attention to the need for selective control of
10 credit with regard to financing exports. In view of
11 the new role assumed by export credit, the availability
12 of credit may often be a more important consideration
13 in foreign markets than the decline in export prices
14 which a tightening of overall credit might bring about.
15 In this particular field then, an indiscriminate policy
16 of tight money may make matters worse rather than
17 better, and in addition lead to the loss of hard-won
18 export markets.

19 VII

20
21 In the field of foreign investment, the
22 Ontario Government believes that we shall need a
23 substantial volume of foreign capital if we are to
24 accelerate the pace of our economic expansion. We
25 also believe that Canada can be as attractive to
26 foreign capital as any other country in the world.
27 We would be missing a great opportunity if we failed
28 to exploit to the fullest possible extent the willing-
29 ness of other nations to invest in Canada's future.
30 It would be to our advantage if some of the heavier

variety of manufactured and semi-manufactured products which are now being imported. We believe that special arrangements for credit and guaranteeing facilities serving this particular purpose would be helpful.

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In the field of foreign investment, the Ontario Government believes that we shall need a substantial volume of foreign capital if we are to accelerate the pace of our economic expansion. We also believe that Canada can be as attractive to foreign capital as any other country in the world. We would be missing a great opportunity if we failed to exploit to the fullest possible extent the willingness of other nations to invest in Canada's future. It would be to our advantage if some of the heavier



1 requirements for future investment in human and social
2 capital could be met partly from abroad. Your
3 Commission could perhaps perform no greater service
4 than to explain the role of foreign investment in
5 Canada, in the past, present and future. It has been
6 the subject of much misunderstanding.

7 We recommend that the Government of Canada in
8 consultation with the provincial governments develop,
9 announce and explain a clear-cut policy towards
10 foreign investment. In particular, we advocate the
11 removal of the present withholding tax levied on
12 provincial and municipal bonds held abroad. We are
13 of course aware of the need that over short-term
14 periods it may be desirable to discourage the inflow
15 of foreign capital. Since vital interests of
16 provincial and municipal governments might be affected,
17 we recommend the establishment of machinery for close
18 consultation on these matters between Federal and
19 Provincial Governments.

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PART I

THE GOALS OF OUR ECONOMIC AND FINANCIAL
SYSTEM

1. The overall function of our financial and monetary system and policies, or for that matter of our whole economic system, is to serve certain fundamental purposes or goals. Accordingly, the extent to which the financial system succeeds in serving these ends must be the criterion of the adequacy and efficiency of that system and its various component parts. We must set out our objectives and emphasize what we believe to be the overriding consideration by which our financial system and monetary policy will be judged.
2. At the outset it should be made clear that we are not concerned here with purely technical deficiencies or shortcomings in our financial institutions and monetary policies. Our concern is with the broader problem of national and provincial economic and social goals, and with the relationship of the financial institutions and monetary policies to these goals.
3. The Government of Ontario believes that our primary goal should be the achievement of a satisfactory rate of economic growth in this country.
4. We are fully cognizant that a high rate of economic growth is often accompanied by dislocations in our social and economic framework. Human beings are adaptable and can adjust to social and economic changes. But the possibility of adjustment becomes smaller, and the difficulties or pains of adjustment



1 greater, the greater is the rate of change. Economic
2 growth, therefore, is not the only goal. Among the
3 other objectives of our economic system must be a
4 reasonable short-term stability in economic affairs,
5 especially in the levels of employment and income.

6 5. In recent years, unemployment has become the
7 focus of national attention. We need not go into the
8 details of the economic, political and social dis-
9 advantages and dangers attached to unemployment.
10 The loss of labour time that can never be recovered,
11 the demoralizing effects of unemployment and the
12 inequitable distribution of income that it usually
13 entails are well understood. Governments have assumed
14 a greater degree of responsibility for curing this
15 ailment and have accepted the goal of full employment
16 as one of their major economic objectives. It would be
17 absurd to expect that monetary policy alone - or even
18 with the help of appropriate fiscal policy - could cure
19 all kinds of unemployment under all circumstances.

20 On the other hand, our financial and monetary system
21 and policies can and do affect the levels of employment
22 and unemployment in Canada.

23 6. A fair stability of prices is another goal
24 on which there seems to be general agreement. Strictly
25 speaking, price stability is not a goal in itself:
26 prices and price changes are the mechanism by which
27 we allocate our economic resources and decide what to
28 produce, how to produce and for whom to produce.
29 However, a pronounced instability of prices can have
30 a number of very detrimental effects on our economic



1 and financial system and social and political fabric.
2 Accordingly, a reasonable stability of prices is
3 usually mentioned as a separate goal of economic policy.

4 7. Of course, stability of employment, incomes
5 and prices does not mean that the economy should be
6 inflexible. A changing economy - one in which the
7 volume and pattern of resources on the one hand, and
8 the requirements of various goods and services on the
9 other, are changing continuously and substantially -
10 calls for frequent and far-reaching adjustments.

11 Flexibility in our economic system will help in
12 dealing with the problems of adaptation to economic,
13 as well as social and political changes, at home and
14 abroad. It will help to minimize dislocations and
15 unemployment by facilitating transfers of factors of
16 production between industries, occupations and
17 localities, and, in the long run, it will facilitate
18 economic growth. A financial system and monetary
19 policy conducive to a flexible economy will be in-
20 valuable to this country in a rapidly changing world
21 economy, especially in a period of accelerated tech-
22 nological change.

23 8. In the minds of large sections of our population
24 equality of opportunity and an equitable distribution
25 of the national product are just as important as the
26 size of the total product. It has been claimed that
27 the present structure and manner of operation of
28 certain sectors of the financial system involve an
29 unfair treatment of classes of our population which
30 have modest incomes and which are ignorant of financial



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1 matters. There have been frequent references to
2 exorbitant charges on consumer credit. Again, it
3 has been charged that, at times, the policies of the
4 central and chartered banks, combined with the ceiling
5 on interest rates, have tightened credit in a manner
6 which discriminates against small businesses, and
7 hence, over the long run, tends to damage their
8 vitality and to threaten their viability. There is
9 no doubt that our financial system and policies are
10 key determinants of the distribution of opportunity
11 and income in our economy.

12 9. Any listing of national objectives would be
13 incomplete without consideration of Canada's balance
14 of payments position. Through trade and financial
15 intercourse we manage to increase our incomes and to
16 secure additional resources for the development of our
17 economy. The efficiency with which our financial
18 system is able to finance our foreign trade and other
19 related sectors of our economy, and to facilitate
20 the international movement of capital, technology
21 and population in our best interest, is another
22 criterion by which our financial system must be
23 judged. It is difficult to overemphasize the
24 importance of appropriate credit, fiscal and exchange
25 rate policies for the balance of trade and payments
26 of a country like Canada.

27 10. In addition to material ends, our economic
28 and financial system is expected to serve goals
29 which might be termed political and ethical or
30 humanitarian. These include Canada's independence



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1 and security, and the discharge of our moral duty to
2 help our fellow human beings in the less well-to-do
3 countries of the world. It is obvious that these
4 purposes can be served best by a strong and growing
5 economy.

6 11. These, then, are the fundamental goals that our
7 economic and financial system is called upon to serve:
8 a satisfactory rate of economic growth; full employment;
9 stability of incomes and an equitable distribution of
10 the national product. The other purposes mentioned,
11 namely stability of prices, economic flexibility,
12 and well-balanced trade and payments relations with
13 the rest of the world, are important intermediate
14 goals or constraints in the achievement of the basic
15 goals.

16 12. Quite often, given policies or measures tend
17 to serve more than one goal. Thus, a growing economy
18 provides a good deal of flexibility and is helpful
19 to the maintenance of a high level of employment, so
20 that policies or institutions conducive to economic
21 growth help also towards the achievement of full
22 employment. On the other hand, there may be cases
23 in which the pursuance of one goal may be difficult
24 or impossible without compromising with respect to
25 another. For instance, at times rapid economic growth
26 can only be achieved at the expense of inflation and
27 instability of incomes; and domestic economic stability
28 and expansion may clash with stability of the exchange
29 rate.

30 13. The fundamental question, then, is not what the



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1 desirable goals are - on this matter there seems to be
2 general agreement. The question is rather what relative
3 significance should be attached to each goal. And
4 this is a thorny problem, involving political, ethical
5 and economic considerations.

6 14. Different people assign different significance
7 to the various goals. While the young may stress
8 economic expansion, and labour may emphasize full
9 employment, the old are interested strongly in the
10 stability of prices. Furthermore, the importance of
11 the various goals changes with time and circumstances.
12 An economy which has been stagnant for some time may
13 be prepared to accept price increases if these are
14 indispensable to growth whereas an economy which has
15 been advancing at satisfactory rates may devote its
16 major effort to fight inflation. Since the end of the
17 Second World War, we have witnessed changes in the
18 emphasis placed on these various goals.

19 15. It is clearly difficult to expect universal
20 agreement on the desirable combination of rate of
21 economic growth and maximum rates of unemployment and
22 increase in prices. It is equally clear, however,
23 that uncertainty or disagreement in responsible circles
24 about the mix of goals to be pursued is not conducive
25 to the formulation of appropriate policies.

26 16. It would seem clearly desirable from time to
27 time to have a public announcement from responsible
28 circles of the particular mix of goals at which the
29 Canadian economy is aiming. Such an announcement
30 could not be expected to settle the issue of what the



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14. Different people assign different significance to the various goals. While the young may stress economic expansion, and labour may emphasize full employment, the old are interested strongly in the stability of prices. Furthermore, the importance of the various goals changes with time and circumstances. An economy which has been stagnant for some time may be prepared to accept price increases if these are indispensable to growth whereas an economy which has been advancing at satisfactory rates may devote its major effort to fight inflation. Since the end of the Second World War, we have witnessed changes in the emphasis placed on these various goals.

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16. It would seem clearly desirable from time to time to have a public announcement from responsible circles of the particular mix of goals at which the Canadian economy is aiming. Such an announcement could not be expected to settle the issue of what the



1 desirable mix of goals should be. On the other hand,
2 the suggested announcement would invite discussion about
3 the feasibility and desirability of that particular
4 mix, the factors that should be taken into consider-
5 ation in determining it at various times and under
6 various circumstances, and the effects of pushing one
7 goal on the achievement of others. For instance, a
8 specific increase in the rate of growth of national
9 income might entail an additional increase in prices
10 of a certain amount.

11 17. Such an announcement would serve as a beacon
12 of the direction in which public policy is leading
13 the economy; and public reaction to this indication
14 may be such as to make achievement of the mix easier.
15 Finally, such a policy would compel those who would
16 argue about economic and financial policies and
17 techniques to start from clear assumptions as to the
18 purposes or goals involved - more specifically, to
19 indicate whether it is the mix of goals about which
20 they disagree, or the techniques and policies by which
21 an agreed-upon mix can be achieved. This type of
22 discussion would throw more light on the problems
23 involved than discussions in the past, even though
24 it might produce just as much heat. Disagreement
25 on economic goals and techniques is perfectly
26 consistent with our democratic system of government.

27 18. The Government of Ontario considers that the
28 overriding goal of economic and financial organization
29 and policy should be economic growth. To achieve this
30 end, all other goals should be subordinate. While we



desirable mix of goals should be. On the other hand, the suggested announcement would invite discussion about the feasibility and desirability of that particular mix, the factors that should be taken into consideration in determining it at various times and under various circumstances, and the effects of pushing one goal on the achievement of others. For instance, a specific increase in the rate of growth of national income might entail an additional increase in prices of a certain amount.

17. Such an announcement would serve as a beacon of the direction in which public policy is leading the economy; and public reaction to this indication may be such as to make achievement of the mix easier. Finally, such a policy would compel those who would argue about economic and financial policies and techniques to start from clear assumptions as to the purposes or goals involved - more specifically, to indicate whether it is the mix of goals about which they disagree, or the techniques and policies by which an agreed-upon mix can be achieved. This type of discussion would throw more light on the problems involved than discussions in the past, even though it might produce just as much heat. Disagreement on economic goals and techniques is perfectly consistent with our democratic system of government.

18. The Government of Ontario considers that the overriding goal of economic and financial organization and policy should be economic growth. To achieve this end, all other goals should be subordinate. While we



1 recognize the importance of all these goals, we are
2 convinced that their achievement will be made much
3 easier if we can maintain a satisfactory rate of
4 economic growth in the Province and in Canada as a
5 whole. The economy of this Province depends very
6 considerably on manufacturing, mining, agriculture
7 and exports, and is therefore exposed to instability
8 of employment, prices and incomes. Consequently, we
9 place great value on a financial system and monetary
10 and fiscal policies capable of mitigating such
11 instability. Nevertheless, we are convinced that
12 economic growth should have first priority. And,
13 therefore, our financial system and monetary and fiscal
14 policies should be so ordered as to gain this end.
15 Economic growth has served, and will continue to
16 serve as the guide-post of the economic policies of
17 the Government of this Province.

18 19. We conclude by urging your Commission to use
19 the promotion of a satisfactory rate and pattern of
20 economic growth as the chief test of the structure,
21 functioning and policies of our financial and monetary
22 system. We recommend further that this goal should
23 be explicitly stated and specifically stressed in
24 the Preamble to the Bank of Canada Act.

25 20. In the various countries the relations between
26 the Government and the Central Bank are regulated by
27 tradition or statute. Recent experience suggests
28 that in this country there have been considerable
29 uncertainties and changing views as to the role of
30 the Bank of Canada. We consider it imperative that



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1 it be clarified by statute that the decision on the
2 combination of goals of monetary and related policies
3 rests exclusively upon the elected representatives of
4 the people of Canada.

5 21. The relation between the Bank of Canada and
6 the Government of Canada must be clarified also with
7 respect to the policies used in pursuing the chosen
8 goals. Monetary, budgetary and debt management
9 policies are closely interrelated as to the techniques
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THE NEED FOR MORE RESEARCH AND INFORMATION

22. There has been a growing concern in the Province of Ontario over the need in Canada for an institution of economic and business research. In the United States, the National Bureau of Economic Research - a private non-profit organization of national and international reputation has for many years been studying problems of the American economy. Its work has been supplemented by economic and business studies undertaken at a number of other highly efficient institutes of economic research. Similar institutes have been established in the last three or four decades in practically every advanced country, for instance, in Great Britain, Germany, Sweden and the Netherlands. Going further afield, Western aid has helped to establish similar research institutes in a number of underdeveloped countries, for example, in India and Pakistan.

23. In Canada, on the other hand, there is no such permanent, independent, national institute for economic research - an institute which might have undertaken a study of Canadian economic growth, the banking and financial system or the problems facing small business. This country has relied inordinately on the less efficient and more expensive procedure of appointing ad hoc Royal Commissions to deal with some of its broadest and most fundamental economic problems. This is not to imply that Royal Commissions have not been of value. We are suggesting that experience and

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1 wisdom, drafted hurriedly and intermittently, can be
2 valuable complements of, but certainly no substitutes
3 for, systematic and painstaking research requiring
4 continuity, considerable time and carefully selected
5 personnel.

6 24. Within its own jurisdiction, the Province of
7 Ontario has established the Ontario Economic Council
8 which has been given broad terms of reference and
9 empowered to conduct and commission economic studies
10 and to make recommendations to the Government. Within
11 the Department of Economics and Development of Ontario,
12 continuing research is being undertaken on a wide
13 variety of short and long term economic problems
14 affecting economic development in the Province and in
15 the country as a whole. In this way we have made an
16 initial attack in this Province in meeting the problem
17 of research into business and economic matters.

18 25. On the other hand, there are many broader
19 issues, concerning the whole Canadian economy, which
20 call for systematic study. Your Commission could
21 perhaps make a great contribution to the improvement
22 of our financial and banking system, and, more
23 generally, to Canada's economic development and
24 stability if it strongly urged the establishment of
25 a National Institute for Economic Research. The
26 Government of Ontario is prepared to cooperate in a
27 private or public effort aimed at creating such an
28 organization.

29 26. Uninformed or hasty opinion might argue that
30 a recommendation of this kind would be outside your



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Commission's terms of reference. To dispel any doubts, your Commission should make it clear that, if finance is important for economic growth and stability, so is knowledge based on methodical collection and analysis of information. Only such knowledge can provide the indispensable background for constructive financial and monetary reforms and policies. This country is neither so small nor so poor that it has to base the discussion of a number of its economic problems on information and analysis relating to the United States, on the assumption that our problems are simply a miniature replica of those south of the border. It would certainly be a great pity, if a number of years from now another Royal Commission on Banking and Finance were faced with the same lack of useful background information that you have had to cope with.

27. We are also concerned with the necessity for knowledge and adequate channels of communication and information at other levels. Specifically, small economic units including small firms in manufacturing, mining, agriculture and the services, as well as the Canadian consumer, are very often unaware of even the approximate scope and nature of their financial problems and requirements. Another fact repeatedly brought to our attention during the preparation of this Submission is that too often the individual or small entrepreneur is ignorant of the sources and methods of finance open to him and of the size and consequences of the financial burdens which he may unwittingly take on. These are serious flaws in our

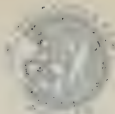


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1 system of free enterprise.

2 28. We are convinced that many of the problems
3 facing businesses of small or medium size in manufact-
4 uring, agriculture, mining, forestry, transportation
5 and the services originate in lack of information
6 and financial and technical knowledge, rather than
7 of capital or other resources. Improvements in the
8 channels and effectiveness of business communication
9 in the broadest sense is required more urgently than
10 any change in the number and size of financial
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12 improvements would make a strong contribution to
13 successful financial planning, would minimize the
14 barriers which compartmentalize our economy and would
15 further the goals of economic growth and of a fair
16 and equitable distribution of income among the
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THE FINANCING OF PROVINCIAL AND MUNICIPAL
RESPONSIBILITIES

29. In this Part we discuss the importance of investment in human capital to economic growth, the role of the provinces and the municipalities in supplying this capital, and the problems which these bodies have in financing their responsibilities. We place particular emphasis on the relationship between responsibilities of the provinces and the municipalities and the volume and nature of their revenue resources. Attention is also given to the effect of credit restrictions on the financing of their activities.

A - The Importance of Human Capital

30. There should be little doubt about the enormous contribution which a well-organized and adequately progressing system of education and training can make to the achievement of certain important economic and social goals. Nothing can help more towards a reasonable equality of opportunity and a fair share of income for the people of this country than such a system of education and training. It would be absurd through taxation and other policies to attempt to correct the consequences of inequality of opportunity by redistributing income, while neglecting to tackle the cause of much of this inequality.

31. The achievement and maintenance of full employment has been listed as another important goal of our economic and financial system. But in a world

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1 of rapidly changing technology, communications and
2 transportation, full employment can be obtained only
3 in a truly flexible economy. There are few factors
4 that can increase the flexibility of our economy more
5 than the education and training of our labour force.
6 Without the requisite skills in our labour force we
7 will continue to be plagued with structural unemploy-
8 ment. The Province of Ontario, therefore, places
9 great emphasis on the education of our young people
10 and the retraining of our workers to meet the changing
11 needs of our economy.

12
13 32. We turn to what we consider as the major goal
14 of our economic and financial system, namely economic
15 growth. Quite often economic growth is related,
16 indeed, "ascribed", to the formation of physical
17 capital: to expenditures on new structures, machinery,
18 equipment, and inventories. By contrast, not enough
19 emphasis has been put on expenditures designed to
20 improve the education, training, strength, stamina,
21 mental health, vigour and vitality of our people.
22 To some, expenditures on these items represent a
23 waste of resources which might have been invested
24 in physical assets.

25 33. It is only in recent years that there has
26 been any appreciation - and any attempt at measure-
27 ment - of the tremendous contribution to increases
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1 as a source, as well as a product, of increases in
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4 34. Studies undertaken in the United States
5 indicate that only about one-half of the increase in
6 gross national product over the last sixty years can
7 be attributed to the increase in input of manhours
8 and physical capital; and that a large part of the
9 increase in national product must be explained by the
10 increase in intangible assets and improvements in the
11 efficiency of labour, due to investment in health,
12 education, training and scientific and technological
13 advance. These studies suggest also that the return
14 on human capital in the form of investment in education
15 has been at least equal, and probably has exceeded
16 considerably, the return on investment in physical
17 capital.

18 35. These findings about the relation of
19 investment in human capital to economic development
20 have been termed astounding. Even more astounding
21 than these results has been the slowness of Canadians
22 to recognize the great productive significance of
23 these expenditures. Your Commission will be doing
24 a great service to this country if it emphasizes and
25 vividly illustrates the importance of investment in
26 human capital.

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28 B - Government Expenditures on Human and Social
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29 36. Public expenditures on health, welfare and
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1 the provincial and municipal governments of Canada.
2 One may well describe these Governments as the public
3 agencies which specialize in the formation of Canada's
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5 provincial and municipal finance can hardly be over-
6 emphasized.

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8 37. In addition to its emphasis on human capital,
9 the Government of this Province places great import-
10 ance on its responsibilities for the provision of
11 social overhead capital, which is indispensable for
12 the growth and expansion of private business. The
13 Province and its municipalities, in their role as
14 agencies for the provision of physical assets such
15 as roads, sewers, energy sources, etc., have been
16 aptly described as the right arm of development.
17 It is hardly necessary for the Government of Ontario
18 to describe its activities in these fields. They
19 are too well known and no brief reference to them
20 could do justice to the magnitude of our achievements.
21 Our Government has every reason for being proud of its
22 record in this field. We are more concerned, however,
23 with the provision of adequate social overhead capital
24 in the future than with any past achievements.

25 38. There are clear signs that the share of
26 public expenditures on education and health in the
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secondly, because the public share in the expenditure on these services is likely to grow.

39. We cannot help stressing that Canadian economic growth will depend in the future on a very substantial increase in expenditures on health and education. Our economic development tends to depend less and less on the discovery and exploitation of new natural resources, and more and more on the better use of our known resources, which is brought about through technical improvements, the development of skills and automation. In turn, these developments depend heavily on investment in health, education, advances in technology and other forms of intangible capital. Economic development will not only depend on, but will also call for, a substantial increase in the relative importance of outlays on education and health.

40. The assumption by government of increasing responsibility for investment in human capital is due largely to the expanding recognition of the value of human resources as a national asset, as well as to the peculiar features of investment in human capital. This increasing government responsibility is a natural response to the increasing demand for equality of economic opportunity and a fair share in the national income. We are convinced that the role of education in preparing our young people for the future has never before been more vital to our economic and social progress, indeed, even to our national survival, than it is today.

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41. We can illustrate this point by a brief reference to the Ontario situation. In September 1961 enrolment in elementary and secondary schools in this Province totalled 1,462,000 pupils. It is estimated that by 1970 total enrolment in these schools will amount to 1,781,000 pupils. To accommodate this increase in enrolment, provincial grants to school boards which amounted to \$181 million last year will more than double, reaching a total of \$400 million by 1970. These figures do not take into account the cost of operating teachers' colleges and other special services provided by the Province nor do they include our grants to universities, which will rise proportionately. A similar story can be told in the total cost of operating the Ontario Hospital Services Commission. In 1962 the direct cost to the Ontario Government was in the neighbourhood of \$52 million. In three years' time the cost to the Provincial Government alone is expected to be in excess of \$100 million. These figures give some indication of the expanding total financial burden facing the Province in the coming years.

C - The Need for More Adequate and Stable Revenue Sources

42. The Government of this Province is gravely concerned about the strain that the anticipated expenditures on education and health will exercise on the finances of the Province and its municipalities. We recognize the necessity of providing both for this increased investment in human capital and for

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1 the growth of physical assets which will be required
2 by an expanding economy, but, unless the Province and
3 the municipalities are endowed with more adequate tax
4 revenues, and unless the financial system and monetary
5 policy are adapted to meet the growing needs of the
6 Province and the municipalities we may be unable to
7 fully meet our responsibility in these vital fields
8 of investment. The probable repercussions on employ-
9 ment and economic growth are obvious.

10 43. Total expenditures of provincial and municipal
11 governments have increased in recent years much
12 faster than Canada's gross national expenditure or
13 expenditure of the Federal Government. Between 1949
14 and 1961, the gross national expenditure in current
15 dollars increased by 120 per cent, the total budgetary
16 expenditure of the Federal Government rose by 162 per
17 cent and the total budgetary expenditure of the
18 Government of Ontario rose 218 per cent. The
19 municipalities increased their expenditures at a
20 rate corresponding to provincial expenditures.

21
22 44. In order to match these quite different rates
23 of expansion and expenditure the taxes of the lower
24 levels of government had to expand more than the
25 Federal Government revenues. We are concerned that
26 this pressure may have led to over-expansion of
27 certain taxes while others are under-utilized.
28 For example, between 1949 and 1960 Federal Government
29 revenue from the personal income tax more than
30 doubled, municipal revenue from the real property tax



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1 more than tripled.

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3 45. The real property tax would have had to
4 increase more than three times were it not for the
5 very substantial increase in provincial aid to the
6 municipalities: for instance, Ontario's 1962-63
7 budget provides for aid to the Province's municipal-
8 ities, school boards and other local agencies of about
9 \$425 million, an amount equal to no less than 45 per
10 cent of the Province's current revenues. This means
11 that the burden of financing a large part of municipal
12 expenditures has been shifted to provincial taxes,
13 a fact which raises the same type of question we are
14 discussing, namely, whether taxes under provincial
15 jurisdiction have not been forced into overexpansion.

16 46. We are deeply concerned with the continuing
17 autonomy and independence of the municipalities in
18 this Province. The Government of Ontario has at all
19 times pursued policies designed to strengthen the
20 autonomy of the municipalities by giving them financial
21 support rather than by taking over responsibilities
22 that are historically and traditionally municipal
23 functions. While some have argued that the Province
24 should take over full responsibility for education,
25 we believe that it is essential for the maintenance
26 of viable local government that the municipalities
27 play a fundamental part in the provision of education.
28 It is our contention that active municipal govern-
29 ments are essential to our democratic system.
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7. that the burden of financing a large part of municipal

8. expenditures has been shifted to provincial taxes,

9. a fact which raises the same type of question we are

10. discussing, namely, whether taxes under provincial

11. jurisdiction have not been forced into overexpansion.

12. 16. We are deeply concerned with the continuing

13. autonomy and independence of the municipalities in

14. this Province. The Government of Ontario has at all

15. times pursued policies designed to strengthen the

16. autonomy of the municipalities by giving them financial

17. support rather than by taking over responsibilities

18. that are historically and traditionally municipal

19. functions. While some have argued that the Province

20. should take over full responsibility for education,

21. we believe that it is essential for the maintenance

22. of viable local government that the municipalities

23. play a fundamental part in the provision of education.

24. It is our contention that active municipal govern-

25. ments are essential to our democratic system.



47. To deal with the question of tax revenues and responsibilities the Prime Minister of Ontario has announced that Ontario will appoint a Commission to undertake a full-scale investigation into the structure of provincial and municipal taxation. He has also repeatedly urged an early examination of the issue of taxation and allocation of tax revenue between the various levels of government through a Federal Royal Commission. Although we welcome the appointment of a Royal Commission on Taxation, it is our view that the terms of reference of this Commission are not broad enough.

48. It is clear that the problems of provincial and municipal finance which we have outlined call for the most careful attention of your Commission. Questions of availability and cost of credit to provincial and municipal governments are closely related to the nature, volume flexibility and other features of their tax revenues. In view of the importance of government revenues and expenditures, at all levels, in present-day Canada, reforms of credit institutions, methods and policies must go hand in hand with a rational reorganization of our fiscal structure.

49. Investment in material capital and expenditures on the creation of human capital give rise to different problems. The call for, and flow of business investment in structures, equipment and inventories is subject to extensive fluctuations over fairly short



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19. Investment in material capital and expenditures on the creation of human capital give rise to different problems. The call for, and flow of business investment in physical capital and human capital are subject to extensive fluctuations over fairly short



1 periods. On the other hand, the very different nature
2 of investment in human capital and in such physical
3 assets as highways, water systems, and sewage disposal
4 plants makes similar changes in investment policies
5 over short periods totally inappropriate. While the
6 decisions to undertake business investment depend
7 largely on the prospects of changes in incomes and
8 expenditures - elements which are subject to consider-
9 able short-term fluctuations - investment in human
10 capital and in such physical assets as government
11 provides must vary largely with population changes
12 and other long-term factors. For example, once a
13 child enters the school system, the responsible
14 governments must provide the physical facilities for
15 him until he leaves the system. In contrast, a large
16 proportion of Federal Government expenditure can be
17 expanded or contracted substantially in accordance
18 with economic needs.

19 50. There are often long delays intervening
20 between the stages of realization, deliberation,
21 decision blueprinting and execution of provincial
22 and municipal expenditures. In some cases the
23 approval of the taxpayers, or of a provincial
24 administrative authority, such as the Ontario Municipal
25 Board, must be obtained. This means that if we allow
26 investment in human capital to be affected adversely
27 by such disturbances as a decline in the rate of
28 growth in revenues, a tight money policy, or inflation,
29 the effective recovery of these types of investment
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1 may be difficult and slow. Therefore, such disturb-
2 ances may have serious long-run consequences: invest-
3 ment in human capital, and other social overhead
4 facilities, undertaken by provincial and municipal
5 governments may be disproportionately low.

6 51. Since expenditures on health, education, and
7 other social capital must grow at a fairly steady rate,
8 the provinces and the municipalities must be able to
9 rely on steadily growing revenues and a fairly stable
10 supply of outside finance. No doubt, the governments
11 responsible for these expenditures should be able to
12 do some shifting of financial resources between their
13 various financial requirements as the need arises.
14 However, it is often very difficult for provincial
15 and municipal governments to adjust their expenditures
16 in this fashion because so much of their expenditures
17 are inflexible and growing steadily: in 1960 about
18 56 per cent of the current expenditure of all provin-
19 cial governments and 40 per cent of municipal current
20 expenditure consisted of outlays on education, health
21 and public welfare (excluding relief). It is obvious
22 that a short-period decline in the rate of growth of
23 total financial resources of these governments might
24 require very drastic - well-nigh impossible - restric-
25 tions in their other expenditures if these governments
26 are to provide steadily growing outlays on social
27 and human capital. It might be noted also that,
28 unlike large business firms, provincial and municipal
29 governments do not have financial assets or other
30

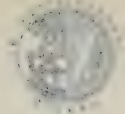
may be difficult and slow. Therefore, such disturbances may have serious long-run consequences: investment in human capital, and other social overhead facilities, undertaken by provincial and municipal governments may be disproportionately low.

51. Since expenditures on health, education, and other social capital must grow at a fairly steady rate the provinces and the municipalities must be able to rely on steadily growing revenues and a fairly stable supply of outside finance. No doubt, the governments responsible for these expenditures should be able to do some shifting of financial resources between their various financial requirements as the need arises. However, it is often very difficult for provincial and municipal governments to adjust their expenditures in this fashion because so much of their expenditures are inflexible and growing steadily: in 1960 about 56 per cent of the current expenditure of all provincial governments and 40 per cent of municipal current expenditure consisted of outlays on education, health and public welfare (excluding relief). It is obvious that a short-period decline in the rate of growth of total financial resources of these governments might require very drastic - well-nigh impossible - restrictions in their other expenditures if these governments are to provide steadily growing outlays on social and human capital. It might be noted also that, unlike large business firms, provincial and municipal governments do not have financial assets on other



resources to draw on when the need arises. We repeat that they must be able to depend on a steadily growing source of revenue and supply of loan capital.

52. The stable growth of the revenues of provincial and municipal governments depends heavily on circumstances beyond their control: on changes in business activity, prices and incomes, which affect for instance the return of provincial taxes on corporation profits and the real value of the various tax revenues. It is therefore necessary for us to emphasize the importance we attach to fiscal and monetary policies aimed at evening out fluctuations in employment, incomes and prices. In addition, we might suggest that your Commission should examine on the one hand the variability of the various public expenditures and its consequences, as they relate in the short run for instance to economic stability, and in the long run to economic development; and on the other hand it should consider the cyclical variability of the various tax revenues. In recommending, then, adjustments in the distribution of tax revenue between the various levels of government you might take into consideration, among other factors, first the need of provincial and municipal governments for a cyclically stable and steadily growing tax revenue, and secondly, the desirability of leaving to the Federal Government those types of taxes whose revenue normally changes cyclically, and which are subject to easy manipulation in counter-cyclical policies.



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Federal Government those types of taxes whose revenue normally changes cyclically, and which are subject to easy manipulation in counter-cyclical policies.



53. We also wish to draw to your attention the great increase in the volume of provincial finances and the role which they now play in the Canadian economy. We recommend that machinery be devised for regular consultation between the Federal and Provincial Governments on the state of the Canadian economy and the possibility of concerted Federal-Provincial anti-cyclical policies.

D - The Effect of Monetary Policy on Investment in Human Capital

54. When revenues are insufficient provincial and municipal governments try to supplement their resources through borrowing. Unfortunately, changes in monetary and exchange rate policies have often caused considerable difficulties to these governments. Most of the investments in social capital, material and human, undertaken by these governments are of a long-term nature and cannot be turned off and on. Accordingly, these governments require loans amortizable over long periods. On such loans interest payments constitute a large part of the debt service, and the yearly amortization a relatively small one. Consequently, changes towards a policy of tight credit affect the financing of provincial and municipal governments and their investment projects considerably more than they affect the financing of business investment. On the other hand, on account of business uncertainty, technical obsolescence and other factors a large part of industrial investment is amortized over relatively short periods, and the level of



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Monetary and Exchange Policies

D - The Effect of Monetary Policy on Investment in Foreign Capital

When interest rates are high, investment in foreign capital is discouraged. On the other hand, when interest rates are low, investment in foreign capital is encouraged.

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1 interest rates is not as important a consideration.
2 Another reason why changes in the availability and
3 cost of funds tend to have a greater influence on the
4 capital expenditures of provincial and municipal
5 governments than of private business is that the
6 proportion of capital expenditures which is financed
7 by borrowing is usually larger in the case of these
8 governments than in the case of most private businesses.

9
10 55. This is not place to consider in any detail
11 the merits and disadvantages of our system and techniques
12 of credit control, or the pros and cons of selective
13 control of credit. There is hardly any type of monetary
14 policy that does not, in effect, discriminate against
15 some sector of the economy. It is necessary, however,
16 to convey our view that tightening of credit, in the
17 manner practised in Canada, has often had an unduly
18 limited effect on those sectors of the economy,
19 investment in inventories, purchases of consumer
20 durables or land speculation etc., which might have
21 been responsible for inflationary pressures. Changes
22 in interest rates, may not affect decisions in these
23 areas because interest costs respond too slowly to
24 changes in open market rates of interest, changes in
25 interest rates are a secondary consideration in
26 decisions to borrow, or, because informal rationing
27 of credit may not have been very effective. On the
28 other hand, credit tightening has affected seriously
29 sectors of the economy which were not among those
30 responsible for sudden inflationary pressures, such

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1 as government expenditure programs which are vitally
2 important from the point of view of the desirable
3 rate and pattern of the economic and social develop-
4 ment of Canada. For the reasons indicated in the
5 previous paragraph provincial and municipal govern-
6 ments have been hit hard by policies of credit restric-
7 tion; so has small business, as indicated in more
8 detail later in our submission.

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10 56. The foregoing discussion has suggested that
11 short-term changes in the supply of resources for
12 financing investment in human, and other capital by
13 provincial and municipal governments may have serious
14 consequences. First, such changes are inconsistent
15 with the requirements of investment in human and
16 social capital, which by their very nature call for
17 a smoothly rising flow of resources. Second, these
18 expenditures tend to recover slowly and with difficulty,
19 once they are reduced. We suggest that in formulating
20 proposals for changes or reforms in the techniques
21 and policies of monetary control your Commission
22 should bear in mind the following considerations
23 among others:

24 (a) the likely contribution of the various
25 sectors of the economy to sudden inflationary
26 or deflationary pressures;

27 (b) the speed and effectiveness with which the
28 various sectors respond to changes in credit
29 policy; special consideration should be given
30 to the speed and effectiveness with which



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- (a) the timely contribution of the various sectors of the economy to sudden inflationary
- (b) the speed and effectiveness with which the various sectors respond to changes in credit policy; special consideration should be given to the speed and effectiveness with which



1 expenditures in the various sectors are
2 able to recover when a policy of tight
3 money is relaxed;

4 (c) the need, in pursuing policies of
5 stabiliation of prices, employment and
6 incomes, to avoid discouraging or otherwise
7 unduly affecting the long-term prospects
8 and development of those sectors of the
9 economy which constitute the core and basis
10 of any policy of growth.
11

12 As we read the record, our long-term economic and
13 social development has not infrequently been
14 sacrificed to ill-conceived and ill-time stabilization
15 measures. In view of the fundamental national
16 importance of investment in social capital and of
17 provincial and municipal finance, we hope that, in
18 considering these matters and recommending goals and
19 techniques of monetary policy, your Commission will
20 see fit to single out and emphasize the peculiarities
21 of provincial and municipal finance, and to advocate
22 making the financial requirements of these governments
23 an important guide post of monetary, exchange rate
24 and other economic policies. Adequate consideration
25 of the foregoing points may well call for policies
26 and techniques of selective control of credit.

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28 57. We finally wish to convey our view that our
29 monetary system and policy tend to discriminate
30 against investments in social capital entrusted to



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1 provincial and municipal governments, and in favour
2 of public expenditures under federal jurisdiction.
3 To say the least, the views of the Federal Government
4 influence the Bank of Canada. In addition, the latter
5 acts as the financial agent and debt manager for the
6 Federal Government. It follows that the requirements
7 and interests of the Federal Government are taken
8 fully into consideration by the Bank when deciding
9 on the timing, extent and pattern of changes in
10 monetary policy. The needs of the lower levels of
11 government, in our opinion, do not receive analogous
12 consideration. In view of the significance of the
13 volume and nature of provincial and municipal expend-
14 itures, and of the special problems that credit to
15 these governments presents for monetary and exchange
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PART IV

THE FINANCING OF SMALL BUSINESS

58. We turn now to problems of financing the private business sector. We shall concentrate on those problems relating to small business. It appears that larger businesses in the various areas of the private sector are, in the main, adequately serviced by existing financial institutions. During the preparation of material for this Submission we became convinced that this was not the case with smaller businesses - including firms and individuals engaged in manufacturing, mining, agriculture and the services.

A - The Importance of Small Business

59. Most people would be surprised to learn of the number and extent of small businesses in this country. In Ontario only 50 per cent of our labour force finds employment in firms of fifteen or more employees. The other 50 per cent work in smaller firms or are self-employed. Of the more than 13,000 manufacturing establishments in Ontario more than 8,000 employ less than 15 workers. Regardless of which definition of small business is used (i.e. value of assets, gross profits, number of employees, gross sales, etc.), approximately 90 per cent of all businesses in Canada are small.

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3 therefore, hinges on the successive establishment and
4 rapid growth in each new period of new firms and
5 industries. New businesses, usually associated with
6 different localities and "new" men and families,
7 succeed others whose rate of growth has slackened,
8 in supporting Canada's rate of economic development.
9 The new firms in the longer run carry the torch of
10 growth; and while new firms need not be small, small
11 firms account for a very important part of new
12 businesses.

13 61. In discussions relating to economic growth
14 there has been an unfortunate tendency to overrate
15 the role of organized research by large corporations.
16 It cannot be stated too emphatically that both the
17 development of new ideas (new processes, new products
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28 62. Private saving can be enhanced through an
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1 expanding small businesses. Longer term credit serves
2 to bring much closer the date of possible investment.
3 People who would not consider saving for too distant
4 a goal, will readily save in order to secure a "down-
5 payment." Moreover, people are prepared to take
6 considerable risks when they invest in their own small
7 business and therefore the supply of risk capital
8 is enhanced.

9
10 63. In many cases small towns and villages can
11 support only small local firms. Accordingly, the
12 decentralization of our economy is closely related
13 to the survival and progress of small business.
14 Canada would be very fortunate if she were spared
15 some of the economic and social costs of overcongestion
16 and overindustrialization of a few metropolitan centres
17 at the expense of the rest of the country.

18 64. In larger urban areas there are many indispens-
19 able industries and services which are not suited to
20 big business organization and can be performed
21 adequately only by small business. On the basis of
22 our present knowledge of techniques and management
23 this seems to be true about many personal services,
24 a variety of tourist and entertainment services and
25 the professions. Finally, small businesses often
26 constitute a valuable complement to big businesses,
27 supplementing big businesses "at the edges."

28 65. In addition to the economic advantages out-
29 lined above, small business presents important social
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1 and political advantages for this country. Small
2 business helps to endow life with that variety which
3 is associated with the production of goods and services
4 tailored to individual tastes. Above all, the
5 survival and progress of small private businesses
6 provides one of the strongest contributions to
7 individualism, non-conformity, personal freedom and
8 our system of free enterprise. We cannot imagine a
9 better defence of the social fabric and pattern of
10 life which we so highly treasure than the encouragement
11 of individual ingenuity and drive.

12 B - The Problems Facing Small Businesses

13 66. It is our understanding that the staff of the
14 Royal Commission on Banking and Finance is undertaking
15 a study of the problems of financing small business.
16 We are sure that their findings will prove to be
17 extremely useful in providing knowledge on the sources,
18 methods, and policies of finance of such firms. At
19 the present time, published material on these matters
20 relating to the Canadian situation is inadequate.
21 That small business has special problems is evidenced
22 by the fact that the Federal Government has passed
23 legislation such as the Small Businesses Loans Act,
24 the Farm Credit Act and the Industrial Development
25 Bank Act. In the private sector new institutions
26 such as RoyNat have moved into this field.

27
28 67. In our view, special consideration of the
29 problem of medium and long-term finance of small
30 business is required. With the introduction of



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67. In our view, special consideration of the

problem of medium and long-term finance of small

business is required. With the introduction of



1 progressive income taxes it has become increasingly
2 difficult to finance small concerns through self-
3 finance or by raising capital privately. In recent
4 decades advertising campaigns and "education" have
5 turned investors to life insurance, blue chip stocks,
6 government bonds and the like. Saving has increasingly
7 been institutionalized in Canada. The chartered banks
8 are primarily short-term lenders and are therefore
9 not a significant source of medium or long-term capital
10 for small firms.

11 68. The financial foundation of small firms is
12 normally less secure than large firms. Their
13 production tends to be less diversified and their
14 earnings generally are less stable. Because they
15 are often new in the field they are usually short of
16 expertise and lack experience. Furthermore, the
17 management of unincorporated firms is tied to
18 particular individuals and their heirs. Hence the
19 continuity of suitable leadership is quite uncertain.
20 All these factors give rise to doubts in the lender's
21 mind about the ability of a small firm to meet its
22 financial obligations in the future and therefore
23 weakens its prospects of getting finance today.

24
25 69. Because of its newness or its smallness, the
26 smaller firm may not have demonstrated its credit-
27 worthiness. If it is a new firm it may lack even
28 a good record of management and earnings. Under these
29 circumstances the lender wants to be doubly sure
30 about the prospects for recovery of funds loaned.



progressive income taxes it has become increasingly difficult to finance small concerns through self-finance or by raising capital privately. In general, decades advertising campaigns and "education" have almost removed it from the financial picture. Saving has been institutionalized in Canada. The chartered banks are primarily short-term lenders and are therefore not a significant source of funds for small business.

68. The financial foundation of small firms is normally less secure than large firms. Their production tends to be less diversified and their earnings generally are less stable. Because they are often new in the field they are usually short of experience and lack experience. Furthermore, the management of unincorporated firms is tied to particular individuals and their habits. Hence the continuity of suitable leadership is quite uncertain. All these factors give rise to doubts in the lender's mind about the ability of a small firm to meet its financial obligations in the future and therefore weaken the prospects of getting finance today.

69. Because of its newness or its smallness, the smaller firm may not have demonstrated its creditworthiness. If it is a new firm it may lack even a good record of management and earnings. Under these circumstances the lender wants to be doubly sure about the prospects for recovery of funds loaned.



1 This calls for a more elaborate investigation which
2 raises the cost of borrowing.

3
4 70. Finally, the small firm often lacks the
5 knowledge required for choosing the best sources and
6 methods of finance, and it may well lack the skill
7 and experience required (financial, economic, mana-
8 gerial and legal) for assessing its credit requirements
9 and presenting its case. Quite often, as noted in
10 Part II of this Submission, it is this difficulty
11 rather than any objective lack of creditworthiness
12 that is the main problem facing small business. The
13 lending institution has to convince itself rather
14 than let itself be convinced about the prospective
15 borrower's needs, the adequacy of the security
16 offered and the prospects of repayment. For these
17 and other reasons there seems to be a limited amount
18 of credit available to small firms for medium and
19 long-term finance.

20 71. In this situation, the Government of Ontario
21 feels that the provision of expert advice would make
22 an important contribution to the solution of the
23 financial problems of many small firms. It would
24 contribute, among other things, to a reduction in
25 the high cost of investigation of the financial
26 position of such firms and of public floatation of
27 their issues. The Government of Ontario is planning
28 to establish, within the Department of Economics
29 and Development, a division whose function will be
30 to give expert advice on these matters. We are



raises the cost of borrowing.

Finally, the small firm often lacks the

knowledge required for choosing the best sources and

methods of finance, and it may well lack the skill

and experience required to obtain, evaluate, and

negotiate the loan. The situation is even more

serious in the case of small firms which are

Part II of this Submission, it is this difficulty

rather than any objective lack of creditworthiness

that is the main problem facing small business. The

main difficulty is a subjective one.

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offered and the prospects of repayment. For these

and other reasons there seems to be a limited amount

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1 convinced that such a program would go far in solving
2 many of the problems involved in the financing of
3 small firms.

4
5 C Medium and Long-Term Financing

6 72. The problem of supplying small business with
7 an adequate volume of longer-term credit and equity
8 capital is neither unknown, nor new. At least for
9 the last three decades it has been clearly recognized
10 and has begged for a solution. Since the end of the
11 War measures have been adopted in several advanced
12 countries to cope with the problem. However, as
13 explained more fully later, in this country the
14 measures taken have been patently inadequate. As
15 we read the record, there has not been much difficulty
16 in understanding the existence and nature of the
17 problem which faces small business. The reason for
18 the inadequacy of the solutions adopted lies rather
19 in the inability of a continent dazzled by bigness,
20 longness and tallness to recognize and appreciate
21 sufficiently the tremendous importance of small
22 business. Indeed, the immense contribution of small
23 business in terms of employment, incomes, taxes and
24 investment to our economy is neither well known nor
25 understood.

26 73. In an effort to cope with the problem of
27 longer-term finance of small business, almost two
28 decades ago the Federal Government established the
29 Industrial Development Bank as a subsidiary of the
30 Bank of Canada. The declared purpose of the new



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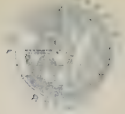
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Bank was to give "particular consideration to the financing problems of small enterprises." However, even allowing for the substantial expansion of the Bank's operation since 1961 and the welcome announcement in the Federal Speech from the Throne that we can expect a further expansion of its activities this coming year, it would be difficult for it to claim that it has more than scratched the surface. On the average of seventeen years, from November 1, 1944 to September 30, 1961, it extended loans totalling less than \$22 million a year. This is a paltry sum in proportion to Canada's income and capital investment: it is equal to a little over one-half of one per cent of Canada's average yearly private investment in new non-residential construction and machinery and equipment, in the period 1945-1960. Nor can the Bank claim that its credit operations were conservative initially, but picked up steam later: the corresponding percentage in the period 1956-1960 was exactly the same. While in the years 1959 and 1960 the Bank lent in the Province of Manitoba \$3.96 million, the Manitoba Development Fund (a provincial development credit institution) found it necessary to lend in a little more than two years after its establishment (from December 15, 1958 to March 31, 1961) an additional \$4.54 million. In short, it simply didn't meet the need in Manitoba.

74. It is not clear whether the reason for the meagre scale of operations of the Industrial



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1 Development Bank. At the present time it is difficult
2 to know whether the I.D.B. is designed primarily to
3 assist small business, to promote regional develop-
4 ment or to advance industrial development in the less
5 wealthy provinces. While each of these activities
6 are commendable in themselves, it would help to clear
7 the air if the Industrial Development Bank's purposes
8 were spelled out clearly in the appropriate legis-
9 lation.

10
11 76. The problems discussed in these pages have
12 concerned this Government for some time. In view
13 of the character of the Industrial Development Bank -
14 a federal institution and a subsidiary of the Bank of
15 Canada - we cannot be sanguine about the likelihood
16 of its adopting a much more active policy. In seven
17 of Ontario's sister provinces the Provincial
18 Governments, either directly or through special
19 lending agencies or Development Funds, supply or
20 help in the provision of medium-term or long-term
21 finance to small business. Accordingly, the Govern-
22 ment of Ontario has the issue of the creation of a
23 development fund under active consideration in both
24 the Department of Economics and Development and the
25 Ontario Economic Council. The aim of an Ontario
26 fund would be to supplement existing financial
27 institutions in the field of industrial development
28 and economic decentralization. As yet, a final
29 decision on this fund has not been made.
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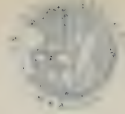


D : Short-Term Financing

77. We now turn to another problem that seems to trouble small business. It appears that in periods of monetary restriction the short-term financing of small firms is affected more than the financing of larger ones. As indicated later, this is not - as it might seem to be - merely a problem of short-term finance; the ability of small firms to attract longer-term finance, and hence also their very prospects of existence and growth, may also be affected.

78. Because of the nature of the problem, evidence that general credit controls have tended to affect small business more than large firms is difficult to come by and interpret. However, there are obvious reasons why in a period of tight money the short-term finance of small business is likely to be affected more. Firstly, the dependence on bank credit for short-term finance is greater in the case of small business. Hence, even a proportional restriction of bank credit to all business would hurt the small firms more. Secondly, it would appear that in periods of credit restriction bank credit to small business is restricted proportionately more than credit to larger firms. We wish to expand briefly on these points.

79. Fragmentary evidence relating to the United States points to a relatively greater dependence of small business on bank credit: firstly, because, small businesses normally depend more than large firms



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79. Fragmentary evidence relating to the United States points to a relatively greater dependence of small business on bank credit: firstly, because small businesses normally depend more than large firms



1 on external sources of short-term finance; and
2 secondly, because among the external sources of
3 short-term finance bank credit is more important for
4 small firms. Established large firms can meet a good
5 part of their needs for short-term finance out of
6 retained earnings or through the greater possibility
7 which they have of shifting financial resources
8 between their longer-term and short-term financial
9 requirements. Also, such firms have access to the
10 open market, both for short-term funds and for longer-
11 term funds which may be used for purposes of short-
12 term financing.

13 80. For reasons analogous to those outlined
14 earlier in relation to longer-term credit, bank
15 loans to small business as a rule entail more risks
16 than loans to larger firms; also, the expenses of
17 investigating, supervising and administering the
18 former loans are greater. Normally then banks
19 have to charge higher rates of interest on the former
20 loans. Now in periods of credit restriction rates
21 of interest tend to rise. However, for reasons which
22 seem to us historical, and contain little economic
23 or legal justification, there is in Canada a ceiling
24 on interest rates charged by banking institutions.
25 Since the interest charged on credit to small
26 business cannot in periods of tight money exceed
27 the legal ceiling, the differential between the
28 interest rates charged on loans to small and large
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1 small business become relatively less attractive to
2 the banks. Because, among other reasons, of the
3 existence of a ceiling on interest rates, banks
4 restrict credit in periods of tight money through
5 denying loans, or parts thereof, to applicants who
6 are prepared to pay the going price. And it is only
7 too natural that they should deny credit more where
8 the price for it has risen less, namely to small firms.

9
10 81. Another reason why tight money affects small
11 business more than large firms is that when credit
12 must be rationed, other things being equal, banks
13 are likely to show preference for the larger firms,
14 which are probably their older, better and more
15 promising clients. The larger firms also enjoy
16 another advantage: open-market credit, to which they
17 (though generally not the small firms) have recourse,
18 tends to be restricted less quickly and drastically.

19 82. The banks may claim that overall credit
20 tightening does not affect small business any more
21 than it affects large firms - that, when credit is
22 restricted, the restriction is distributed among
23 large and small firms in proportion to the volume of
24 credit they have been receiving. Of course - the
25 banks would point out - the number of small businesses
26 affected will perforce be much larger than the number
27 of large ones, and this might be interpreted as
28 discrimination against small business; also, the
29 mere weight of numbers of small firms affected might
30 impress public opinion unfavourably. The banks may



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1 add that the short-term finance of small firms may
2 well be affected more unfavourably for the simple
3 reason noted earlier, that these firms generally
4 depend on bank credit for short-term finance more
5 than large firms do - which is no fault of the banks.
6 However, it would be difficult to accept the above
7 arguments as being the complete story. As long as
8 there is a relatively low effective ceiling on interest
9 rates and as long as banks are institutions concerned
10 with present and future profits our earlier argument
11 is bound to be valid: in periods of tight money
12 bank credit to small business is bound to be affected
13 more than credit to larger firms.

14 83. We have considered carefully the purpose
15 and consequences of the ceiling on interest rates
16 charged by banks. We find little economic or legal
17 justification for it at present, and we recommend
18 that it be raised. Further, we ask your Commission
19 to give special consideration to this problem of
20 short-term changes in the supply of short-term
21 credit to small business. The considerations
22 suggested with reference to changes in the supply of
23 capital to provincial and municipal governments are
24 relevant here also. Small business has not usually
25 been one of the main contributors to sudden inflation-
26 ary pressures, while on the other hand the develop-
27 ment and success of such business is exceedingly
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29 It may be necessary to provide for policies and
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83. We have considered carefully the purpose and consequences of the ceiling on interest rates charged by banks. We find little economic or legal justification for it at present, and we recommend that it be raised. Further, we ask your Commission to give special consideration to this problem of short-term changes in the supply of short-term credit to small business. The considerations suggested with reference to changes in the supply of capital to provincial and municipal governments are relevant here also. Small business has not usually been one of the main contributors to sudden inflationary pressures, while on the other hand the development and success of such business is exceedingly important for our economic and social development. It may be necessary to provide for policies and



1 techniques of selective control of credit. At
2 present, small businesses are forced over short
3 periods to make more drastic adjustments in their
4 operations than large enterprises. But excessive
5 unevenness in the operations of small firms over
6 short periods tends to knock them off balance, reduces
7 their attractiveness to longer-term capital, and
8 compromises their business prospects and growth
9 potential.



PART V

CONSUMER CREDIT

84. Consumer credit has in the post-war period become an increasingly important part of the Canadian way of life. People used to the vast array of credit facilities open to them in the purchase of homes, durable goods, entertainment and services find it hard to believe that the extensive use of consumer credit is to a large extent a North American phenomenon. We have come to accept the purchase of goods and services through the use of time payment plans, borrowing of funds, credit cards and other devices as essential in our daily lives. To many people credit is simply a convenience as opposed to a means of meeting emergencies, consolidating debts or bringing purchases forward. More than anything else, it is probably the ease with which people can obtain credit financing and the multiplicity of methods open to them that leads to confusion and abuse.

85. One of the key problems which embraces the entire field of consumer credit in Canada is the inability of the individual borrower to determine easily the cost of the credit he is receiving. If the price system is to succeed in efficiently allocating the financial resources of the economy, it is essential that the consumer be able to ascertain the full cost of his credit and be able to compare readily the total lending charges of the various financial institutions. In many situations today,

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1 financing arrangements are part of a "package deal"
2 and it is difficult to separate financing costs from
3 the actual cost of the good being purchased. In the
4 field of automobile financing, for example, the price
5 of the car is generally lumped with the financing and
6 other charges. The purchaser makes an agreement with
7 the firm which involves the price of the automobile,
8 the financing charges, automobile insurance and a
9 number of other miscellaneous charges. This type of
10 financing arrangement which is practised generally in
11 the retail goods market, makes it virtually impossible
12 for the average consumer to ascertain the actual cost
13 of his using credit, and eliminates the possibility
14 of his being able to compare readily the financing
15 charges of different companies.

16 86. Moreover, there is little attempt made by
17 the financial institutions to give the consumer a
18 clear idea of the cost of his borrowing. The interest
19 charges of the small loans companies and the chartered
20 banks are lumped together with the regular repayments
21 of principal, and while the total interest and service
22 charges on a particular loan are usually stated in the
23 agreement, the effective rate of interest is rarely
24 mentioned.

25
26 87. It is our belief that if the effective rate
27 of interest on the loans of all financial intermediaries
28 providing credit to the consumer are displayed clearly
29 in their literature and their contracts, the consumer
30 will be more readily able to compare the costs of



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It is our belief that if the effective rate of interest on the loans of all financial institutions providing credit to the consumer are displayed clearly in their literature and their contracts, the consumer will be more readily able to compare the costs of



1 borrowing. We, therefore, suggest that the Commission
2 give careful consideration to the methods by which a
3 degree of uniformity might be injected into the credit
4 agreements of the various financial institutions.

5 Of course, the most desirable measure would be to
6 require all the intermediaries supplying credit to the
7 consumer to state in the contract the effective rate
8 of interest on their loans. We understand, however,
9 that even in the more simple cases of credit granted
10 independently of other charges or stipulations it
11 may often be impossible to state unequivocally the
12 effective rate of interest, or it may require math-
13 ematical competence of a degree unusual in business.
14 Surely for such cases it should be possible to devise
15 a fairly simple and uniform basis of expressing
16 interest charges, even though this may involve stating
17 a range rather than a single percentage. We urge
18 that it be made compulsory for all institutions
19 extending consumer credit to declare the effective
20 rates or range of rates of interest which they charge
21 on such a comparable basis. It may not matter
22 particularly if the consumer does not know the exact
23 rate of interest which he is paying, but it would
24 help him a great deal if he were enabled to compare
25 and decide where he can get credit most cheaply.

26 88. At the present time additional legislative
27 controls over the financial intermediaries would not
28 appear to be advisable. While it is necessary to
29 enable the consumer to compare easily the cost of
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public in such a way as to bring them under the
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controls over the financial intermediaries would not
appear to be advisable. While it is necessary to
enable the consumer to compare easily the cost of



1 borrowing funds from different sources, it is undesir-
2 able to impose restrictions that would hinder the
3 flexible operation of the capital market.

4
5 89. There is one problem related to the operations
6 of small loans companies that we believe should be
7 brought to the attention of the Commission. The
8 statistical evidence of recent years shows that small
9 loans companies have been reluctant to grant loans in
10 the range of \$1,000 to \$1,500. The companies argue
11 that it costs them more to borrow the necessary funds
12 in the capital market than the interest rate ceiling
13 will permit them to charge on loans in this range.
14 Thus, the pattern has been for the small loan
15 companies to have a large number of loans under \$1,000,
16 to discourage loans between \$1,000 and \$1,500 and to
17 encourage loans in excess of \$1,500. We recommend
18 that an appropriate amendment be made to the Small
19 Loans Act.

20 90. As indicated earlier, we believe that the
21 ceiling on interest rates charged by banking institu-
22 tions should be raised by an amendment of Section 91
23 of the Bank Act. It is an unnecessary rigidity imposed
24 upon the capital market. In periods of tight money,
25 when the liquidity position of the banks is low, the
26 interest rate ceiling does not permit the price system
27 to ration the available capital. In our opinion, the
28 argument that the chartered banks are in a monopoly
29 position in many areas of the country and that a
30 ceiling is required, has been virtually destroyed in



borrowing funds from different sources, it is undesirable to impose restrictions that would hinder the flexible operation of the capital market.

89. There is one problem related to the operation of small loans companies that we believe should be brought to the attention of the Commission. The statistical evidence of recent years shows that small loans companies have been reluctant to grant loans in the range of \$1,000 to \$1,500. The companies argue that it costs them more to borrow the necessary funds in the capital market than the interest rate ceiling will permit them to charge on loans in this range. Thus, the pattern has been for the small loans companies to have a large number of loans under \$1,000 and to discourage loans between \$1,000 and \$1,500 and to encourage loans in excess of \$1,500. We recommend that an appropriate amendment be made to the Small Loans Act.

90. As indicated earlier, we believe that the ceiling on interest rates charged by banking institutions should be raised by an amendment of Section 22 of the Bank Act. It is an unnecessary rigidity imposed upon the capital market. In periods of tight money, when the liquidity position of the banks is low, the interest rate ceiling does not permit the price system to ration the available capital. In our opinion, the argument that the chartered banks are in a monopoly position in many areas of the country and that a ceiling is required, has been virtually disregarded in



Nethercut & Young
Toronto, Ontario

A. 62

1 recent years by the rapid growth of other financial
2 intermediaries. Finally, it may at times result in
3 the banks offering a lower rate of interest on
4 savings deposits than they might have to in order
5 to encourage saving.





PART VI

THE FINANCING OF EXPORTS

A The Importance of Exports to Economic Growth

91. Foreign trade has been very important in the economic growth of Canada. Indeed, it may be stated without hesitation that the fundamental stimulus to the development of the Canadian economy in its great periods of forward thrust was provided by the growth of foreign demand for Canadian products. At various times this was due to changes in incomes and expenditure patterns abroad, changes in supply conditions of competing producers, or changes in the means and possibilities of international transportation. Clearly, were it not for the tremendous opportunities provided by foreign trade, Canada might have ranked among the less developed countries. While such has been the importance of foreign trade in the past, the question of practical interest is the role that foreign trade might be expected to play in the future.

92. In some earlier periods of our history, for instance in the late nineteen-twenties, exports of goods accounted for not much less than a quarter of our gross national product, and exports of goods and services for almost three tenths. Recently the relative importance of foreign trade has been substantially smaller, and on the average of the last five years exports of goods have accounted for less than one-sixth of our gross national product, and and of goods and services for almost one-fifth.

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92. In some earlier periods of our history, for instance in the late nineteenth-century, exports of goods accounted for not much less than a quarter of our gross national product, and exports of goods and services for almost three tenths. Recently the relative importance of foreign trade has been substantially smaller, and on the average of the last five years exports of goods have accounted for less than one-sixth of our gross national product, and of goods and services for almost one-fifth.



1 This difference has been interpreted rather lightly
2 as indicating that as a country develops and its
3 income per capita rises, the ratio of trade to income
4 must fall. We cannot agree with this view. On the
5 contrary, we would like to emphasize strongly our
6 conviction that acceleration of our rate of economic
7 progress will depend heavily on, and must be accompanied
8 by, a considerable increase in our foreign trade,
9 absolutely and as a percentage of our national income.
10 While domestic investment constitutes a larger percent-
11 age of our gross national product than exports, we
12 must remember that much of this investment is export-
13 induced and export-financed, directly and indirectly,
14 and hence it too depends on the changing fortunes of
15 our exports.

16
17 93. It is not, of course, our purpose to discuss
18 the gamut of foreign trade problems that have developed
19 since the Second World War. However, we should like
20 to emphasize the role of finance in any national effort
21 to maintain and expand our position as a great trading
22 nation in a world in which trade patterns are changing
23 rapidly. Trade we must, and the effectiveness and
24 expediency with which our financial system can support
25 and promote our efforts to export must be an important
26 yardstick by which we shall measure its adequacy today,
27 tomorrow and for a long time to come.

28 B Changes in the Demand for Export Credit

29 94. Generally, it appears that in the past our
30 financial institutions and methods of finance,



must fail. We cannot agree with this view. On the contrary, we would like to emphasize strongly our conviction that acceleration of our rate of economic progress will depend heavily on, and must be accompanied by, a considerable increase in our foreign trade, absolutely and as a percentage of our national income. While domestic investment constitutes a larger percentage of our gross national product than exports, we must remember that much of this investment in export-induced and export-financed, directly and indirectly, and hence it too depends on the changing fortunes of our exports.

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B Changes in the Demand for Export Credit
94. Generally, it appears that in the past our financial institutions and methods of finance,



1 developed along lines traditional in the Western World,
2 managed to finance our trading activities quite
3 adequately. The great credit which is due to the
4 smooth development and functioning of this part of
5 our economic and financial mechanism and to its role
6 in Canada's economic progress is sometimes forgotten.
7 Wheels that turn well are taken for granted. In any
8 event, conditions are changing and tradition soon
9 turns to being an impediment to progress. There are
10 now some doubts as to whether in recent years our
11 institutions and methods of finance have measured up
12 to the export challenge - whether they have been fully
13 able and prepared to support greater aggressiveness in
14 a field so vital for the Canadian economy. Certainly,
15 neither the present progress of our economy nor our
16 balance of trade and payments problems allow complacency
17 in this matter. Competition in international trade
18 is becoming increasingly complicated and fierce, and
19 in the development of this new trading world there
20 are a few changes that we should like to draw to the
21 attention of your Commission.

22 95. For a long period in the past the credit
23 required for financing international trade was of
24 short term. When developing countries decided to
25 construct transportation systems, public utilities,
26 power stations or other capital projects and found that
27 their domestic capital resources were inadequate for
28 the purpose, they would first try to secure inter-
29 national loans of a long-term nature, and then use the
30



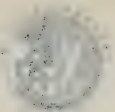
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1 proceeds to finance the capital projects. In sum, it
2 was international investment, not commercial credit,
3 that provided the longer-term capital which was used
4 to finance on a longer term imports of capital or
5 consumer goods related directly or indirectly to
6 development projects.

7
8 96. Since the end of the war this two-part
9 operation, of imports of capital in the first place,
10 and goods in the second, has tended to merge. The
11 effort to accelerate economic development has become
12 universal. Both advanced and less developed countries
13 have planned large schemes of economic development and
14 are anxious to undertake large investment projects in
15 transportation, public utilities, industry and
16 agriculture. Import requirements are expanding, and
17 the share of capital goods, construction work and
18 engineering projects in the total imports of many
19 countries has tended to increase. But, while the effort
20 to develop and the need for imports has thus expanded
21 greatly, the international flow of long-term capital
22 is, by almost any conceivable standard, insufficient.
23 As a consequence, governments and private business in
24 importing countries turn to the exporters of the goods
25 and services required to request that they, directly
26 or with the assistance of the government of the
27 exporting country, arrange to provide the credit needed.
28 It is pointed out, of course, that the term of credit
29 should stand in some relation to the earning capacity
30 of the project to be established and the period over
which the capital cost of the project is amortized.



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1 This period is often quite long; for instance, in the
2 case of power stations and grids, steel mills or surveys
3 of natural resources, it may run up to twenty-five years
4 or more.

5
6 97. Briefly then, commercial loans, "tied" to the
7 imports of materials, equipment, engineering and other
8 services, and consumer goods from the creditor country,
9 tend progressively to replace the "untied" international
10 loans of older periods. (Since such tied loans are
11 fully respectable, and since they present many
12 advantages for the employment, income and exchange
13 earnings of the creditor country, private interests and
14 government are likely to concentrate more on them and
15 to be correspondingly less anxious to revive and expand
16 portfolio investment abroad of the old vintage).

17 Compared then to the past, export credit generally
18 tends to be of a longer term, including a considerable
19 amount of medium-term credit of one to five years,
20 and long-term credit reaching fifteen to twenty years
21 or more. The length of term of export credit has been
22 added to price, quality, and conditions and date of
23 delivery of the goods as an important feature in the
24 competition for export markets.

25 98. Another important change in finance of inter-
26 national trade is that, partly on account of the
27 general lengthening of the term of commercial credit,
28 described previously, and partly on account of changes
29 in economic, political and social conditions in the
30 world, foreign trade credit is generally more risky



1 than it has been in the past. First, the usual
2 commercial risks, such as the possibility of insolvency
3 or default on the part of the importer, become greater
4 the longer the credit period. Secondly, creditors
5 and exporters are faced with the possibility of
6 political changes, including war or rebellion,
7 currency inconvertibility or non-transferability,
8 changes in exchange or import regulations, changes
9 in exchange rates against which hedging in the
10 forward market may be almost impossible, expropriation
11 or confiscation of private property, and other similar
12 risks, all of them much more serious than before the
13 war. These contingencies would have been less disturb-
14 ing if trade credit were extended for traditionally
15 short periods.

16 99. A third important change with which this and
17 other exporting nations have to contend is the
18 emergence and economic expansion of communist regimes.
19 Since one-third of the world's population lives under
20 such governments, the possibilities and advantages of
21 trade with these countries cannot be ignored - nor can
22 we forego our hopes of using trade and other economic
23 and cultural intercourse for advancing world under-
24 standing and peace. However, the extension of
25 commercial credit to sovereign governments presents
26 new problems of a substantially different nature than
27 traditional trade credit. When foreign trade is fully
28 a state enterprise, and economic means are used for
29 furtherance of political ends, commercial risks, as
30 usually understood, tend to disappear and are replaced



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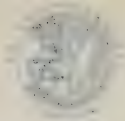


1 by political risks.

2 C - The Role of Government in Supplying Export Credit

3 100. The foregoing changes, and others perhaps
4 equally important, have called to question the adequacy
5 of traditional institutions and methods of financing
6 foreign trade. The problems raised are not entirely
7 new, but they still are, and for a long time will be,
8 in the process of being solved. Institutional changes
9 in finance and banking played a very significant role
10 in the nineteenth century, and are likely to do so
11 again in the economic and commercial revolutions of
12 the present and the future. In this and other
13 countries private interests have taken some steps to
14 deal with the new problem of financing export trade.
15 But their action has been timid, and understandably
16 so: for if for a number of obvious reasons private
17 capital is averse to going overseas, why should it
18 go in the form of export credit, which, because of the
19 lengthening of the term of credit, is in effect
20 foreign investment tied to the export of Canada goods?
21 The tying of credit presents advantages to the
22 capital-exporting nations, but not necessarily to its
23 private investors.

24
25 101. In several countries government has considered
26 it necessary to enter the field of export finance
27 rather actively: to provide guarantees of export
28 credit and direct facilities for export credit of a
29 longer term. Only thus was it deemed possible for
30 these countries to lengthen credit terms; to insure



1 - The Role of Government in Curbing Export Credit

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1 against risks which are privately uninsurable because
2 of the lack of previous experience with a large number
3 of cases, which might have provided the required
4 actuarial background; and to extend credit to sovereign
5 communist and other governments. In the end, govern-
6 ments expect direct benefits in exports, income,
7 employment and foreign exchange earnings. This
8 expansion of government activity in the field of
9 export finance is another one of the important changes
10 which we must draw to the attention of your Commission.

11 102. Some people claim that this government activity
12 tends to create as many problems as it may solve. They
13 feel that export credit is the preserve of private
14 enterprise - that our export trade has been, and can
15 be, well looked after by our private financial
16 institutions. They claim that government inroads into
17 the field of export finance are undesirable - that
18 government should encourage but not subsidize exports,
19 and should influence but not regulate foreign trade.
20 No doubt, in this spirit your Commission might be
21 able to recommend further ways in which private credit
22 institutions may pool risks, lengthen terms of credit
23 and provide for the extension of credit to communist
24 and other governments. You may even consider various
25 inducements that the Canadian Government may offer
26 in order to promote the new types of export credit
27 required. But, unless your Commission is fully
28 convinced that by such policies and changes we shall
29 be fully able and prepared effectively to face the
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1 new and increasing competition in international trade,
2 it will have to go further, to explain clearly and
3 emphasize the weighty problem confronting us and to
4 present supplementary or alternative solutions.

5
6 103. As indicated earlier, we should try to increase
7 the importance of exports in our gross national product
8 in order to sustain a vigorous economic growth in this
9 country. Our export problem is not so much how to
10 maintain our traditional exports of primary commodities,
11 but rather how to expand our exports of manufactures,
12 which would both make good any shrinkage in traditional
13 exports and provide the growing points of our export
14 trade. Such shifts are the essence of economic
15 progress and change. This distinction between main-
16 taining our exports and providing for the growth of
17 exports is significant. In the case of primary
18 exports, credit of the traditional variety is still
19 largely adequate for the purpose; and there should
20 not be much difficulty in competing with other primary-
21 exporting countries with respect to terms of credit
22 offered - though such exports too, if directed to
23 communist countries, may present a few problems.
24 However, for the growth of our exports we shall depend
25 on exporting manufactures, engineering projects and
26 the like. These are fields in which longer-term
27 credit will be required in competition with the
28 countries of Western Europe and the United States,
29 countries which are proving increasingly aggressive
30 in terms of export credit and export credit guarantee.



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1 Canadian industry and technology have advanced to the
2 stage where they can supply a considerable variety of
3 these manufactures ~~and~~ services, and it is eminently
4 desirable that we take full advantage of foreign
5 markets. These are fields in which we must get a foot
6 in the door: in the case of many development projects
7 importing countries come to depend on the original
8 supplier for spare parts and replacements, and even
9 equipment in allied uses.

10 104. There is little doubt in our mind that export
11 credit is developing into a powerful weapon of export
12 promotion, and that the importance of this kind of
13 "tied" international loan will rise in the future.
14 Some people may think it undesirable to see the full
15 power, economic and political, of government closely
16 involved in the export drive of a country. But if
17 this happens in other countries and our private credit
18 institutions are unable to meet the challenge, Canada,
19 dependent as she is on foreign trade, has no alter-
20 native but to follow suit - indeed, to try to lead in
21 the game. It is quite possible that we are being
22 forced into a race of exporting by lending. Over
23 the last three or four decades retail business in
24 this and other countries has pushed itself into a
25 position in which its domestic sales, especially of
26 consumer durables, depend heavily on the supply of
27 consumer credit. Perhaps this phenomenon is now
28 being duplicated on somewhat different terms in the
29 international field. Seeing the significance of
30



these manufactures and services, and it is entirely feasible that we take full advantage of foreign markets. These are fields in which we must get a foot in the door: in the case of many development projects involving countries come to depend on the original supplier for spare parts and replacement, and even equipment in allied uses.

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promotion, and that the importance of this kind of "aid" international loan will rise in the future. Some people may think it undesirable to see the full power, economic and political, of government closely involved in the export drive of a country. But if this happens in other countries and our private credit institutions are unable to meet the challenge, Canada dependent as she is on foreign trade, has no alternative but to follow suit - indeed, to try to lead in the game. It is quite possible that we are being forced into a race of exporting by lending. Over the last three or four decades retail business in this and other countries has pushed itself into a position in which its domestic sales, especially of consumer durables, depend heavily on the supply of consumer credit. Perhaps this phenomenon is now being duplicated on somewhat different terms in the international field. Seeing the significance of



1 exports for Canadian employment, incomes and the
2 balance of trade and payments, we can ill afford to
3 treat such a development lightly or to be content
4 with half measures.

5 105. We should like to close these comments
6 with a plea to your Commission to approach the
7 problem of export credit in the right spirit, of
8 aggressive competition. Superficial comparisons and
9 facile conclusions have often been drawn to the effect
10 that exporters in this country enjoy just about as
11 good terms of export credit and insurance as their
12 opposite numbers abroad. We cannot remain content
13 with such platitudes. The question is how we can
14 give the Canadian exporter better terms, that will
15 assist him in capturing new markets. This is the
16 sine qua non of vigorous progress.

17
18 106. It has been suggested that at times the
19 volume of individual export business is too small
20 to interest our banks, and that this is particularly
21 true in the case of medium-term credit of one to
22 five years. Individual export orders for light indus-
23 trial equipment amounting to less than \$100,000 have
24 been mentioned. The difficulty of arranging for
25 such credit may be especially great when the exporter
26 is a firm of small or medium size. We hope that your
27 Commission will look into this matter also.

28 107. The Government of Ontario is very anxious to
29 draw the attention of your Commission to another,
30



balance of trade and payments, we can ill afford to treat such a development lightly or to be content with a piecemeal approach.

105. We should like to close these comments with a plea to your Commission to approach the problem of export credit in the right spirit, of co-operation and understanding.

Facile conclusions have often been drawn to the effect that exporters in this country enjoy just about as good terms of export credit and insurance as their opposite numbers abroad. We cannot remain content with such platitudes. The question is how we can give the Canadian exporter better terms, that will assist him in capturing new markets. This is the kind of job of vigorous progress.

106. It has been suggested that at times the volume of individual export business is too small to interest our banks, and that this is particularly true in the case of medium-term credit of one to five years. Individual export orders for light industrial equipment amounting to less than \$100,000 have been mentioned. The difficulty of arranging for such credit may be especially great when the exporter is a firm of small or medium size. We hope that your Commission will bear this in mind.

107. The Government of Ontario is very anxious to draw the attention of your Commission to another,



1 related, avenue of promoting Canadian employment and
2 growth, while at the same time contributing to the
3 solution of our balance of payments problem. The
4 Canadian market for a large variety of industrial
5 products has grown very significantly in recent years.
6 Our population is in the process of passing the
7 watershed mark of 10-20 million, and our income per
8 head has grown very substantially. The Government
9 of this Province is impressed by the very considerable
10 possibilities which, it believes, exist in this country
11 for producing a great variety of manufactured and semi-
12 manufactured products which are now being imported.
13 We are placing great emphasis on this matter, and we
14 intend to help vigorously in the exploration of every
15 possibility of import substitution, and to support
16 individual efforts in this field by every means at
17 our disposal. While the problems facing our
18 manufacturers may be questions of information, knowledge,
19 technical competence and the like, we believe that
20 special arrangements for credit and guarantee facilities
21 serving this particular purpose would be helpful.
22 In view of the manifold importance of this issue we
23 urge your Commission to give it careful consideration.

24 D - The Effect of Monetary Policy on Export Credit

25 108. There are also certain problems of short-
26 term changes in credit conditions and trade credit
27 requirements to which we should like to draw your
28 attention.

29
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country there is no guarantee that the requirements of our export trade are taken care of. One might argue that if credit is being restricted as part of an anti-inflationary policy in a fully employed economy, credit to exporters may well, or rather should, also be tightened. But if the extension of credit abroad, particularly of a longer term, is becoming as important a lever as it seems to be, restriction of credit over the short period may result in irreparable loss of hard-won export markets. Moreover, it seems that the lessons of the early nineteen-thirties are still to be learned, that credit may have to be tightened in periods of substantial unemployment for balance of payments reasons. At such times it is necessary to make sure that overall credit restriction does not affect export credit, particularly of a longer term. If it does, it may not only entail losses of export markets, but it may also tend to aggravate the unemployment and balance of trade problems. We are implying that in the case of many types of exports the availability and terms of credit may be a more important and immediately effective consideration in foreign markets than the decline in export prices which the tightening of overall credit might bring about. (Of course, credit restriction is expected also to reduce imports). That restriction of credit may have such an adverse effect on exports may be a rather novel contingency. But we may run into foul weather if we delay in recognizing it. Clearly, this is another argument in favour of



country there is no guarantee that our export trade will be kept open. That if credit is being restricted as part of an anti-inflationary policy in a highly employed economy, restrictions may well, on rather small, also be tightened. But if the extension of credit is particularly of a longer term, it becomes an important factor as it seems to be, credit may extend over the short period may result in a loss of hard-won export markets. Moreover, it seems that the lessons of the early nineteen-thirties are still to be learned, that credit may have to be tightened in periods of substantial unemployment for balance of payments reasons. At such times it is necessary to make sure that overall credit restriction does not affect export credit, particularly of a longer term. If it does, it may not only entail losses of export markets, but it may also tend to aggravate the unemployment and balance of trade problems. We are hoping that in the case of some types of exports the availability and terms of credit may be a more important and immediately effective consideration in foreign markets than the degree to which credit is being restricted. Of course, credit restriction is expected also to reduce imports. That restriction of credit may have such an adverse effect on exports may be a rather novel contingency. But we may run into foul weather if we delay in recognizing it. Clearly, this is another argument in favour of



1 selective control of credit.

2
3 110. Problems of financing exports may become even
4 more acute in times of widespread recession. At such
5 times it would be inconceivable to expect our banks
6 or other credit institutions to extend the term of
7 credit - indeed they are likely to do the opposite.
8 Yet, the more prices and exchange rates become
9 inflexible in many exporting countries, the more
10 reliance is likely to be placed for competing abroad
11 during such difficult times on expansion of export
12 credit, on foreign loans tied to exports. In a new
13 type of beggar-my-neighbour game we may be forced into
14 a credit competition in order to support our employ-
15 ment, incomes and foreign exchange earnings. Our
16 export credit facilities and provisions for export
17 credit guarantees will have to be flexible enough to
18 meet the challenge. We trust that in making its
19 recommendations your Commission will emphasize this
20 very significant contingency and make relevant
21 recommendations. More generally, flexibility in
22 export finance to adjust to new requirements and trade
23 alignments will serve us in good stand in the years
24 ahead, in helping to change the direction, nature or
25 pattern of our trade, with a new trading bloc today
26 or a group of state-directed economies tomorrow.

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28
29
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PART VII

FOREIGN INVESTMENT IN CANADA

111. This Submission would not be complete without some mention of foreign investment in Canada, its importance, the problems it solves and creates, and the attitude with which we should regard the inflow of capital into this country in the future.

A. The Importance of Foreign Investment
to Canadian Economic Development

112. Foreign investment has been and will continue to be an essential source of economic development and growth in Canada. It affects the rate and pattern of capital formation, the level of employment and the stability and distribution of our national income. Its effect is felt through its influence on both the supply of and the demand for capital and other resources in this country.

113. The increase in the supply of, and demand for capital and other resources in Canada through foreign investment have made a significant contribution towards accelerating economic growth of this country. Periods of rapid economic development have been associated clearly with high exports, a large inflow of foreign capital and large-scale immigration, the three factors most responsible for Canada's advanced economy and high standard of living. Foreign investment and the consequent increase in the supply of capital have helped Canada to improve the pattern of her economic development, and to reap at an early stage substantial economies of linkage and scale. For a long time the



1 the economy of this country was characterized by the
2 small scale of many economic operations, including
3 saving and finance. But for the development of our
4 natural resources in particular several important
5 types of large and complex investment projects have
6 been necessary. These projects have required large
7 pools of capital at the disposal of individual firms,
8 as well as considerable risk-taking, advanced
9 technology, and specialized entrepreneurship and
10 management. For these types of investment this
11 country has often had to depend on productive factors
12 which were more appropriate and accustomed to such
13 operations, typically foreign capital, management and
14 technical services. Indeed, because of their size,
15 experience, assurance of export markets for a good
16 part of the output, reliance on foreign sources of
17 supply of materials and parts, and, more generally,
18 good commercial and financial connections and support,
19 the foreign interests found given ventures much
20 less risky than they appeared to Canadians.

21 114. It is commonly assumed that Canada's
22 dependence on foreign capital will diminish in the
23 future. But the nature and extent of this change,
24 so readily forecast, has seldom been explained
25 clearly or supported convincingly. Qualitatively,
26 we shall very probably depend less on foreign capital.
27 The development of our financial institutions and
28 methods and instruments of finance, the increasing
29 maturity of Canadian industry, and the gradual
30



1 removal of certain thinly justified restraints, legal
2 or conventional, on greater participation of our
3 large financial institutions and pensions, or other
4 funds in equity investment, are making it increasingly
5 possible for Canadians to concentrate and supply
6 substantial volumes of venture capital. Education,
7 training, research and technical progress in this
8 country should also tend to decrease our dependence
9 on foreign technology and specialized entrepreneur-
10 ship and management. One may expect also that ways
11 will be found to induce and support the expansion of
12 activities of institutions undertaking longer-term
13 financing of business, and, if necessary, also the
14 development of more and stronger institutions. It
15 is hoped that in a country whose manufacturing and
16 other industry is expanding and should continue to
17 do so, such institutions can be helped to compete
18 more effectively with the banks, insurance companies
19 and other institutions for funds needed for equity
20 investment and more risky ventures.

21 115. These and other developments in our capital
22 markets, including our institutions and methods of
23 finance, and the increasing maturity of Canadian
24 industry may diminish also our quantitative dependence
25 on foreign capital: a somewhat larger proportion of
26 our capital formation may be financed by domestic
27 capital. However, it is necessary to guard against
28 undue, perhaps superficial, optimism in this matter.

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30 116. For a long time most economists believed

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1 that as a country developed and its income per head
2 rose, the percentage of its income saved and available
3 for capital formation increased. This has not been
4 the case. Closer and more fundamental examination in
5 recent years, supported by statistical and factual
6 information, has shown the truth of the matter to be
7 quite different. High income per head is not neces-
8 sarily accompanied by a high ratio of saving to
9 national income - changes in this ratio depend rather
10 on a number of other factors. We conclude that a
11 rich economy like Canada might still depend on
12 foreign investment to a very great extent. Indeed,
13 this dependence is likely to be the greater the more
14 the rate of growth in total national income is raised
15 so that investment becomes a considerably larger
16 percentage of our national income than it has been
17 for the last four or five years. Self-sufficiency
18 in capital requirements is more likely to be achieved
19 in a stagnant Canada, with no immigration, with a
20 low rate of natural increase in population, and with
21 investment in education, health, communications and
22 industry all lagging. In these matters we can
23 afford no mistakes. Erroneous views may be followed
24 by misguided policies regarding foreign investment
25 and lead to very undesirable consequences.

26 117. It is very likely, of course, that not
27 only shall we depend very considerably on foreign
28 capital for further growth, but also that foreign
29 capital will be very anxious to come to Canada.
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1 Foreign capital will be attracted to those countries
2 in which the conditions of demand for it are best.
3 The demand for capital depends partly on the rate of
4 growth of national income and, hence, of the demand
5 for the output of final goods and services. There is
6 no reason why, given appropriate policies, Canada
7 should not be able to achieve as high a rate of growth
8 in national income as any other country. The demand
9 for capital depends further on the supply of important
10 factors of production, such as natural resources, labour
11 of various skills, and managerial and technical services,
12 and with appropriate policies, there is little reason
13 why this richly endowed country should rank second to
14 any other. In addition to the supply of capital, we
15 include among the important conditions enhancing the
16 demand such things as order, good government,
17 political security, and safety of property, conditions
18 usually referred to as "a favourable climate for
19 business." The demand for capital depends also on
20 the economics of scale that capital investment can
21 take advantage of, and, in this respect also, the
22 growing Canadian markets and the proximity of other
23 large markets should provide most attractive conditions.
24 We conclude that there is every reason why this
25 country should be one of the most rapidly expanding
26 areas of the world and one of the most attractive
27 fields for investment of foreign capital. It is a
28 fallacy, as gross as it is common, to believe that
29 the demand for capital is greater in the so-called
30 have-not countries. The need for almost everything



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1 may be great in those countries. But in most of them
2 the demand for capital and the price they can pay for
3 it are low.

4
5 118. In sum, we shall need a substantial volume
6 of foreign capital if we are to accelerate the pace
7 of our economic expansion. At the same time it is
8 clear that our economy can be as attractive to
9 foreign capital as any other country in the world,
10 and more attractive than most. It would be a great
11 pity then if we failed to exploit to the fullest
12 possible extent this opportunity, of securing
13 additional resources for developing our economy and
14 increasing our incomes. It would be tragic if the
15 reasons for our failure were erroneous thinking and
16 faulty policies.

17 B - The Advantages and Disadvantages of Foreign
18 Investment in Canada

19 119. The material presented above has been based
20 on the assumption that foreign investment is advan-
21 tageous to Canadian economic growth. There has been
22 no attempt made to distinguish between the forms
23 foreign investment can take, such as direct and
24 portfolio investment or equity and loan capital, nor
25 the possible advantages or disadvantages that foreign
26 investment may entail. There are, however, pros and
27 cons of foreign investment that should be clearly
28 understood.

29 120. In the first instance foreign investment
30 supplements domestic capital and influences the rate,



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1 types and distribution of supply of capital in this
2 country through its bearing on factors relating to
3 domestic saving. When foreign investment takes the
4 form of direct investment it often is accompanied by
5 the flow of entrepreneurship, risk-taking, specialized
6 management, technology, skills, and, possibly, valuable
7 patent rights into this country. Another related
8 advantage of direct investment is that the operation
9 of foreign enterprise in Canada has "demonstrated"
10 and "taught" business, productive methods and skills,
11 and has helped to advance the business mentality of
12 this country. Still another advantage of direct
13 investment is that, like the human immigrant, it tends
14 to stay more or less permanently in this country.
15 Moreover, for some years after a new business invest-
16 ment is undertaken there is need for consolidation
17 and growth: profits tend to be ploughed back and
18 servicing of foreign capital on a substantial scale
19 is delayed. Finally in difficult times the service
20 on foreign equity capital tends to decline.

21 121. Foreign direct investment has presented
22 some disadvantages for Canada. Our natural wealth
23 has attracted foreign capital into our resource
24 industries. In addition, some of our manufacturing
25 industries have attracted foreign capital, partly
26 because of tariff protection and Commonwealth
27 Preference, and partly because of the growth in
28 recent years of some significant domestic markets
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1 to concentrate in particular industries, and it has
2 in effect dominated a number of mining and manufacturing
3 industries. Outstanding examples of foreign control
4 are found in the rubber, automobile and parts,
5 electrical apparatus, smelting and refining, and
6 petroleum and natural gas industries.

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8 122. While most of the public debate about the
9 disadvantages of foreign investment has focused on
10 the question of foreign ownership, and the problems
11 associated with branch plants in Canada, some people
12 are concerned also about the volume of foreign
13 investment in Canadian fixed-interest bearing
14 securities. Loan capital coming into Canada must be
15 serviced in good times or bad. Further, it has been
16 argued that at times the large-scale inflow of
17 foreign capital into Canada forced the exchange rate
18 up to the point where tariff levels were reduced in
19 effectiveness and Canadian exports suffered. However,
20 the greatest concern arises from the fact that Canada
21 has accumulated an outstanding net foreign indebtedness
22 (including equity capital) of some \$18 billion. We
23 have been placed in a position where foreign
24 confidence in the ability of the Canadian economy
25 to meet and repay its foreign obligations is of
26 supreme importance to the future growth and develop-
27 ment of our economy.

28 123. There is little doubt that foreign business
29 investment present some disadvantages for Canada.
30 And there is no doubt that this country is fully

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123. There is little doubt that foreign business investment present some disadvantages for Canada. And there is no doubt that this country is fully



1 justified in using measures which are aimed at safe-
2 guarding fundamental national interests. Unfortunately,
3 as we read the record, attacks on foreign investment
4 have all too often been over-emotional, misinformed
5 or in defence of vested interests.

6 124. It is unfortunate that the attack has been
7 directed also against portfolio foreign investments,
8 notably investment in provincial and municipal bonds.
9 These are types of foreign investment which do not
10 share the disadvantages of foreign business invest-
11 ment to which we referred, especially the so-called
12 "foreign control of important sectors of the Canadian
13 economy." They are precisely the types of foreign
14 investment which, in our opinion, should be encouraged.

15
16 125. Clearly, it would be to our advantage if
17 our heavy requirements for investment in human and
18 social capital, detailed in an earlier section of
19 our Submission, could be met partly from abroad.
20 We would be using foreign capital resources to
21 educate our youth, train our labour, build our
22 highways and public works, and construct public
23 utilities and community services. We would be
24 yielding no "control" of any sector of our economy
25 to foreigners, and we would repay later out of the
26 much higher incomes that economic development would
27 bring forth. We repeat that this is a privilege
28 that few countries in the world can hope to enjoy.
29 It would be folly not to take full advantage of it.
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1 C. - The Need for A Consistent Policy

2 126. We believe that regarding the problem of
3 foreign capital and business your Commission can
4 perform no greater service than to analyse and
5 explain the role of foreign investment in Canada,
6 in the past and the future. We do not look upon
7 your Commission only as being a body of experts who
8 can produce policy recommendations. We expect that
9 from a position of authority it can "set the record
10 straight" on a number of financial and monetary
11 issues. We hope that in this capacity you will
12 outline clearly the real advantages and disadvantages
13 of foreign investment and of the various types thereof.
14 Also that you will point to the dependence of vigorous
15 Canadian economic expansion in the future on the
16 contribution of foreign capital. We often wonder
17 whether this is sufficiently realized in this country.
18 Above all, we hope that you will make unmistakeably
19 clear the consequences of the alternative policy of
20 "going it alone," of dispensing with foreign capital
21 and therefore the other services which often accompany
22 foreign investment. No doubt this we can do, but
23 only if we opt for a rate of progress far below our
24 economic potential.

25 127. We should hope further that the Government
26 of Canada, in consultation with the Provincial
27 Governments, will develop, announce and explain a
28 clear-cut long-term policy towards foreign investment.
29 In recent months there has been considerable confusion
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THE NEED FOR A COMMISSION

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1 in Canada and abroad about the Canadian attitude
2 towards foreign investment, whether it is welcomed
3 or dammed. And we have witnessed extraordinary
4 gyrations in attitudes and policies: one day
5 foreign capital is suddenly stopped at our border,
6 and foreign business is, in effect, prompted to
7 leave the country; only a few months later a
8 repenting Canada lays out the red carpet.

9
10 128. The announcement of a clear and consistent
11 attitude towards foreign capital should go a long
12 way towards bringing the desired results. However,
13 we hope that further steps will be taken in order to
14 bring the declared policy into effect. If as we
15 expect and hope, the approach to foreign investment
16 is intelligently positive, we should expect the
17 Government to remove all unjustified and unnecessary
18 restrictions. We hope that your Commission will
19 study the matter and spell out these obstacles. It
20 is perhaps needless to point out to you that, while
21 over the short-run the withholding tax levied on the
22 interest on provincial and municipal bonds held
23 abroad might seem justified for reasons indicated
24 later, we consider its maintenance over the longer
25 period patently ill-advised. We are looking forward
26 to the earliest repeal of this hindrance to foreign
27 portfolio investment.

28 129. More positively, we expect that your
29 Commission will recommend measures by which foreign
30 capital will be attracted to this country, especially



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1 foreign investment in provincial and municipal
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3 greatly on the structure and functioning of our
4 financial system and on our monetary and exchange
5 rate policies. In view of the great social, economic
6 and political importance of provincial and municipal
7 expenditures, emphasized in an earlier section of
8 our Submission, the success of our financial system
9 and of our financial and exchange rate policies must
10 be judged to a large extent by the measure by which
11 they take care of the needs of provincial and
12 municipal governments and agencies for foreign capital
13 resources.

14
15 130. There is not the slightest doubt in our
16 mind that over the long-run Canada stands to gain
17 a great deal and lose very little from foreign
18 investment. However, over certain shorter periods
19 it may be desirable to discourage the flow of foreign
20 capital into Canada.

21 131. On account of the importance of foreign trade,
22 of the nature of many of our exports, as well as other
23 reasons, this country has been exposed over shorter
24 periods to the impact of declines in business and
25 markets abroad. Our incomes and employment have been,
26 and for the foreseeable future will continue to be
27 dependent on these changes very substantially.

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29 132. Generally, when our economy is in a recession
30 and a significant part of our plants, equipment and

foreign investment in provincial and municipal securities. Our ability to attract capital depends greatly on the structure and functioning of our financial system and on our monetary and exchange rate policies. In view of the great social, economic and political importance of provincial and municipal expenditures, emphasized in an earlier section of our Submission, the success of our financial system and of our financial and exchange rate policies must be judged to a large extent by the measure by which they take care of the needs of provincial and municipal governments and agencies for foreign capital.

130. There is not the slightest doubt in our mind that over the long-run Canada stands to gain a great deal and lose very little from foreign investment. However, we cannot stop to discuss it may be desirable to discourage the flow of foreign capital into Canada.

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132. Generally, when our economy is in a recession and a significant part of our plants, equipment and



1 labour is underutilized or unemployed, imports of
2 foreign capital are less desirable. Such imports of
3 capital amount, in effect, to "importing unemployment".
4 foreign financial resources are being used to buy
5 foreign products, whereas in many cases unemployed
6 Canadian resources could be used to produce substitutes
7 for imported goods.

8
9 133. We hope that your Commission will discuss
10 and recommend policies by which this country might
11 or should at various times discourage the inflow
12 foreign capital for limited periods, while adjusting
13 its balance of payments to the change in the conditions
14 and requirements of employment and national income.
15 In the formulation of appropriate monetary, exchange
16 rate and other policies special consideration must be
17 given to the credit requirements and debt service
18 obligations of provincial and municipal governments
19 and their agencies. Inept or haphazard measures
20 may produce a lasting damage to our long-run interests.
21 We cannot help urging again the establishment of
22 machinery for close consultation on these matters
23 between the Federal and Provincial Governments, and
24 the provision for representation of the Provincial
25 Government on the Board of Directors of the Bank of
26 Canada.
27
28
29
30



Royal Commission on Banking and Finance

MR. GRAHAM TOWERS

Hearings
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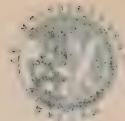
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Toronto, Ontario

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GRAHAM TOWERS

to the

ROYAL COMMISSION ON BANKING AND FINANCE



RECEIVED BY

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2 a witness before this Commission, I asked the Secretary
3 to suggest the subjects on which the Commission might
4 like to receive my comments or opinions. He was good
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6 at least in relation to my resources and capacity.
7 In the end, I have found it necessary to confine my
8 initial evidence to two subjects in which the Commission
9 expressed interest, and to two others that I myself
10 wished to mention.

11 The first two are:

12 (1) The composition and role of the Board of
13 Bank of Canada and views as to how their
14 contribution might be strengthened.

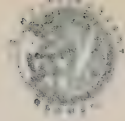
15 (2) The scope of monetary policy - should it be
16 general or both general and specific?

17 The second group:

18 (1) The statutory relationship between Bank
19 of Canada and Government.

20 (2) The statutory provisions covering relations
21 between Bank of Canada and the Provinces.

22 Before going any further, I would like to
23 present my credentials or perhaps it would be more
24 accurate to say my lack of credentials. Association
25 with Bank of Canada for some twenty years is the only
26 credential of which I am aware. But I must remind the
27 Commission that this association ended nearly eight
28 years ago. At the present time, while I am connected
29 with a number of companies, either as Chairman or
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- (1) The composition and role of the Board of Bank of Canada and views as to how their

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present my credentials or perhaps it would be more accurate to say my lack of credentials. Association with Bank of Canada for some twenty years is the only credential of which I am aware. But I must remind the Commission that this association was hardly new years ago. At the present time, while I am connected with a number of companies, either as Chairman or Director, this fact has not even a remote connection



1 with my appearance here. Opinions which I express will
2 be purely personal.

3 With these few precautionary observations, let
4 me turn to my first subject - the composition and role
5 of the Board of Directors of Bank of Canada. Views as
6 to the role of the Board logically come first.

7 I believe that the most important function of
8 the Board is to form opinions on the intelligence,
9 professional competence, powers of judgment and
10 common sense of the management of the Bank. By
11 "management" I mean not only the Governor and Deputy
12 Governors but a number of others whom they will have
13 the opportunity to meet, and who constitute the Bank's
14 resources for the future as well as its strength for
15 the present. If the Directors believe that the quality
16 of personnel is not what it should be, anywhere along
17 the line, it is their duty to express such views and
18 to press for improvement. The Governor is the first
19 man to whom they should speak, but, if the need arises,
20 they are certainly not precluded from discussing the
21 situation informally with the Minister of Finance.

22 I hope I will be forgiven for making the trite
23 remark that quality of top management is important in
24 any organization, but exceptionally important in the
25 case of a central bank, whose policies can affect the
26 economic life of every Canadian. So to my mind the
27 major role which I assign to the Board - watch-dog
28 of the competence of management - is one of great
29 public importance.

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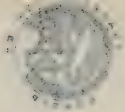
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1 effectively discharging this responsibility. Anyone
2 who has had much business experience will have known
3 cases where Directors were dissatisfied with management,
4 but, either through timidity or a reluctance to upset
5 the applecart, have refrained from doing anything about,
6 it, except possibly to grumble in private. That is a
7 problem which, potentially at least, faces all Boards,
8 and they must try to cope with it.

9 I do not believe that Directors must be
10 financial experts or economists in order to perform the
11 duty I have been discussing, although for other reasons
12 the presence on the Board of some men with financial or
13 economic backgrounds could be most helpful. If the
14 Directors are intelligent men of wide experience and
15 independent turn of mind, they will have had many
16 occasions to estimate the quality of others in different
17 walks of life. They will have frequent opportunities
18 to see the Bank management in action, proposing or
19 explaining policies or discussing the results of past
20 actions. If, after a time, they cannot sense weaknesses,
21 if any exist, then their calibre leaves something to be
22 desired. Now it would be Utopian to assume that each
23 and every member of the Board filled my prescription
24 for an ideal central bank Director. If a reasonable
25 number are in this category, they will leaven the mass
26 and set the pace.

27 While I have taken time to stress what I believe
28 to be the major role of the Board, I do not want to
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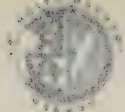


1 management information and views from all parts of
2 Canada. They can contribute greatly to morale by
3 their encouragement and support of the Governor and
4 his associates, so long as the management commands
5 their confidence; and they can play their part in
6 appraising the efficiency and economy of the admin-
7 istration of the Bank and the level of salaries.

8 It will be understood from what I have said
9 that I do not believe it to be the duty of the Board
10 to formulate monetary policy. They should look to
11 management for proposals and recommendations in that
12 field. Obviously they have every right to make
13 criticisms and suggestions and in that connection
14 the presence on the Board of some members with
15 considerable financial or economic knowledge is most
16 desirable. In the final analysis, however, I think
17 that on questions of monetary policy the Board must
18 depend heavily on the Governor - again so long as he
19 commands the Board's confidence.

20 It must be remembered that monetary policy at
21 any given time may be influenced by fiscal policy,
22 present and prospective, or by foreign exchange policy,
23 present and prospective. The Governor should always be
24 aware of the Government's present position and future
25 intentions in these fields, but, so long as they are
26 not a matter of public knowledge, he cannot or should
27 not transmit information to anyone other than officers
28 of the Bank who need to know because of the duties they
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8 Board meeting, I know that some Directors did not
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14 The Commission has received various suggestions
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19 I sense that the recommendations that the principle
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21 that the number of Directors should be reduced are
22 inspired in part at least by the feeling that it
23 would be extremely difficult to find twelve men with
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27 As I mentioned earlier in my remarks, I am all
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1 in this category would, in fact, weaken the collective
2 wisdom and standing of the Board. This opinion is,
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4 regard to the role of the Board.

5 The basic fact is that appointments to the
6 Board have to be made by Government. No form of
7 legislation can ensure the appointment of first-class
8 Directors but nothing in the present Act prevents it.
9 For my part, I see no point in changing the Act in an
10 endeavour to accomplish by legislation something
11 which inevitably depends on the wisdom of Government.

12 The second subject on which I am to comment
13 is the scope of monetary policy - should it be general
14 or both general and specific? As a preface to my
15 remarks, I propose to quote some evidence I gave to
16 the Standing Committee on Banking and Commerce on
17 May 5th, 1939.

18 (Minutes of Evidence - pages 368 and 369)

19 "The last point which I would like to mention
20 concerns central banking activities of a general
21 character. In speaking of this - very briefly -
22 I will not try to define exactly the things in
23 which a central bank might interest itself. One
24 might say either that nothing is the bank's business,
25 or that everything is its business. The bank must
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1 it reason to believe that such action would be in
2 the public interest. Its closest connection is
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4 market - with the operation of the stock and bond
5 markets as well as with the business of the
6 commercial banks. It is deeply interested in the
7 machinery by which the savings of the people are
8 mobilized and invested. Moreover, it cannot fail
9 to be concerned with the progress and development
10 of industry in general. If the bank has reason to
11 believe that unsound developments are taking place,
12 or unsatisfactory practices are being followed in
13 any important department of the Canadian economy,
14 it must try to find an opportunity to make suggestions
15 which will bring about an improvement. I do not
16 suggest for a moment that the central bank has
17 superhuman intelligence, but a central bank is in
18 a better position to accomplish something than any
19 individual can be. Naturally, successful pros-
20 ecution of activities of this character depends
21 on experience and the wisdom and prestige which
22 come with it. Ill-considered action, or an attempt
23 to cover too wide a field, are equally fatal."

24 In expressing an opinion on whether monetary
25 policy should be general in character or both general
26 and specific, I am interpreting "specific" to mean
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1 I feel reasonably safe in following suit.

2 It will be seen from my remarks in 1939 that I
3 am in favour of the use of moral suasion to promote
4 specified policies, provided that the occasions on
5 which this is done are restricted by prudence and
6 common sense. However, there are certain alternative
7 courses of action which should be examined.

8 (1) One such would be for the Bank to confine
9 itself strictly to the exercise of the powers found
10 in the Act. In order to influence cost and availability
11 of credit, the Bank would rely on its ability to
12 determine the cash reserves of the chartered banks and
13 so - within narrow limits - the total volume of bank
14 credit outstanding. When such credit reached a level
15 beyond which the Bank thought it unwise to go, for
16 the time being, the Bank would not be directly concerned
17 if pressing demands for loans for stock market or other
18 speculation, instalment finance, or term loans to large
19 corporations, were tending to freeze out other
20 borrowers, or if the banks were reducing their liquid
21 positions to a level not much in excess of statutory
22 reserve ratios. My own opinion is that such a course
23 of action would at times produce an unnecessarily
24 difficult situation for the mass of borrowers, would
25 contribute to undue fluctuations in business and,
26 incidentally, to serious criticism of the banking
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1 individuals is intense and banks will go to almost
2 any lengths, within their concept of safety, to prevent
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4 of individuals who can influence the transfer of
5 business. The banks may feel that their advances in
6 a particular category are increasing beyond reasonable
7 bounds (although probably safe) and rendering it more
8 difficult for them to cater properly to all their
9 clients. Left to themselves, however, they will have
10 great difficulty in calling a halt, at least until the
11 extreme point is reached where they have literally no
12 further ability to lend.

13 It is not just a desire to reminisce which
14 makes me hark back to the situation in 1928 and 1929.
15 One of the disasters of that time was the enormous
16 increase in the volume of bank credit for stock market
17 speculation. Bank presidents and general managers
18 spoke of this danger in addressing their annual meetings
19 as early as 1928, if my memory serves me right. The
20 practical results of these warnings were not visible to
21 the naked eye, as loans continued to mount until the
22 crash came in the autumn of 1929.

23 If there had been a central bank at that time,
24 I am sure that the Governor could have rendered a great
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26 a restriction on credit for the purchase of stock
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1 arms and that such an arrangement could have been made
2 to work to the advantage of the country. General
3 managers would have been able to say to important
4 clients who were being refused accommodation that the
5 reason was to be found in the agreement sponsored by
6 the Bank of Canada. The Governor could have been
7 the whipping boy - a useful function which he has
8 performed on various occasions since 1935.

9 As a postscript I must add that the extension
10 of credit in the late '20's could not have been so
11 great if the banks had not been able to borrow freely
12 under the Finance Act. A central bank might well have
13 kept them on a tighter rein, although I have my doubts
14 as to whether that alone would have dealt effectively
15 with the problem of credit for speculative purposes.

16 (2) Another course of action would be for
17 Bank of Canada to eschew moral suasion but for the
18 Government to step into the breach. This would not
19 meet the criticism that actions were being taken
20 without authority from Parliament, unless, in fact,
21 Parliament conferred such authority to regulate
22 activities in certain financial fields. The authority
23 would obviously have to be very general in character
24 and for that reason quite dangerous - or so I believe.
25 I much prefer persuasion to coercion in dealing with
26 the too little understood field of credit policies.

27 I should state here my assumption that attempts
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6 Furthermore, I assume that the Minister of
7 Finance will always be aware of proposals which are
8 being made by Bank of Canada. He will not be asked
9 for formal agreement, so that his prestige and that
10 of Government is not engaged. But his tacit blessing
11 is required. Finally, let me say that I do not over-
12 look the pitfalls lying in the path of anyone who
13 attempts qualitative control of credit. In the final
14 analysis, over-all monetary and fiscal policy must do
15 the job. But I believe there can usefully be some
16 rare, temporary and prudent exceptions to this rule.

17 I propose now to comment on the statutory
18 relationship between Bank of Canada and Government.
19 The Commission will, of course, understand that I am
20 not concerned with the sections of Bank of Canada Act
21 which deal with the Bank's powers to make loans to the
22 Federal Government or with information which has to be
23 given to the Minister of Finance, and so forth, but
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1 Commons on Banking and Commerce. The date was March 18th,
2 1954, and, as the text will indicate, I was speaking
3 extemporaneously in reply to a question.

4 (Minutes of Evidence - pages 25 and 26)

5 "The situation is that parliament has placed
6 squarely on the shoulders of the directors and
7 management of the Bank of Canada the responsibility
8 for monetary policy. It would be of no use for us
9 to come before a committee of this kind and say
10 in respect to certain actions which were criticized,
11 we did not like that, but the government wanted us
12 to do it. The proper question would be; in what
13 Act has parliament said that you should do something
14 in the field of monetary policy in which you do not
15 believe? Therefore, we must and do take full
16 responsibility for everything which we have done.
17 Now, I think myself that the Bank of Canada Act is
18 in this respect a very good Act, and better than
19 most, because it is clear. There is no alibi
20 possible for the central bank."

21 "On the other hand, there is no alibi possible
22 for the government, because if government said:
23 well, we disagreed with what the central bank did,
24 but parliament has placed the responsibility on
25 them, so what could we do? The answer obviously
26 is that the administration of the day, supported
27 by a majority in parliament, can always alter the
28 legislation. In fact, I doubt whether a dis-
29 agreement would ever necessitate such a thing,
30 because there are various ways and means by which



1954, and, as the text will indicate, I was speaking extemporaneously in reply to a question.

(Minutes of Evidence - pages 25 and 26)

"The situation is that parliament has placed

adversely on the shoulders of the directors and

management of the Bank of Canada the responsibility

for monetary policy. It would be of no use for us

to come before a committee of this kind and say

in respect to certain actions which were criticised,

we did not like that, but the government wanted us

to do it. The proper question would be; in what

Act has parliament said that you should do something

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because they are not in a position to do so.



1 directors and management can be got rid of. I am
2 sure that in the case of a serious disagreement
3 that is what would take place. There is a long
4 history behind this thing in central banking -
5 and I assure you I won't take up much more of the
6 committee's time - but in the days when kings and
7 princes ruled the roost, they had rather a nasty
8 habit of debasing the coinage when they got into
9 a fix, and even later on parliamentary governments
10 sometimes did the same thing, in the modern sense
11 of inflation. Therefore, it is interesting to
12 notice that in all the many countries of the world -
13 I think it is 60 or more which have central banks -
14 they have always been set up not as a department of
15 government but as separate institutions. In many
16 cases, they have altered in form through the years,
17 and with hardly an exception they have been
18 nationalized, but they have been left as separate
19 structures with the idea that then there are certain
20 checks in respect to the possibility of doing that
21 insidious thing which not one person in a million
22 understands, debasing the currency. In some cases,
23 of course, the independence, while intended to be
24 encouraging to the public, is a pure facade.
25 Obviously that is so in a totalitarian state.
26 But even in some other places in recent years
27 there have been governments - we have had them in
28 sister countries of the commonwealth - which felt
29 that they could not bear the thought that even for
30 a day someone should frustrate or delay the policy



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3 was supposed to convey an idea of check and balance
4 and independence, they would write in a clause
5 saying the policy of the central bank shall be that
6 dictated by the Minister of Finance from time to
7 time. Myself, I think that that is a sort of
8 mongrel arrangement, and the central bank should
9 be either a pure department of government and known
10 to the public as such, or it should have indepen-
11 dent responsibility."

12 "Just to make sure that nothing I have said
13 conveys a misunderstanding, I would like to add
14 that no central bank, and certainly not the Bank
15 of Canada has any delusions of grandeur or any
16 thought that it has sovereign power. That always
17 lies with the administration which commands a
18 majority in Parliament."

19 While I quote my evidence in 1954, I had
20 expressed similar opinions on other occasions,
21 commencing shortly after the creation of the Bank in
22 1935.

23 It is obvious that the legislation in its
24 present form is satisfactory only if both Bank and
25 Government understand and accept the dual responsibil-
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27 of years no difficulties or misunderstandings developed.
28 Various Ministers of Finance put their position on
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5 to it in the Act. Still more recently, the Government
6 has again shouldered its burden. I should think it
7 would now be extremely difficult for any Government
8 to revert to the position that it was powerless in
9 this field.

10 While I continue to believe that the present
11 Act is soundly conceived, I recognize that there
12 exists a body of respectable opinion favouring an
13 amendment which would give the government power to
14 dictate policy; and I am aware that provisions of
15 this character have been incorporated in the central
16 banking legislation of a number of countries. My
17 concern is to preserve the responsibility for monetary
18 policy now placed on the Governor and Directors so
19 that they could not, except at the expense of their
20 integrity, implement a policy which they believed to
21 be bad for Canada. The whole point in setting up
22 a central bank as an independent organization is to
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24 the public if serious disagreements arise. If the
25 independence of the central bank is purely a facade,
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27 Parenthetically, and even though I am repeating
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1 Governor and Directors - if such people do enjoy power.
2 Rather it is intended to convey the imposition of a
3 duty on the Governor and his associates to act in what
4 they believe to be the public interest and to resign
5 rather than act in any other way." I do not want to
6 see the Governor put in the position of a Deputy
7 Minister. In saying that, I am not reflecting in any
8 way on the important and responsible position of
9 Deputy Minister. But I do not understand it to be
10 the duty of a Deputy Minister to resign if the
11 alternative is to carry out policies which he believes
12 to be wrong. If he finds the situation intolerable,
13 he may quite his office, but that is quite different
14 from doing so as a matter of public duty.

15 It is, I think, interesting to consider the
16 legislation on this subject in some other countries.
17 In the United Kingdom and the Netherlands the
18 Government can issue directions to the central bank
19 without being bound to make such directions public.
20 In Germany, on the other hand, the legislation, as
21 I understand it, is similar in effect to the present
22 Bank of Canada Act. Germany's experiences in the
23 monetary field have been such that they attach great
24 importance to the protection that an independent
25 central bank can provide, so long as Parliament allows
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27 In New Zealand, where the Act was amended in
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2 In Australia, the procedure for dealing with
3 differences of opinion between the central bank and
4 Government is carefully prescribed, the final say
5 lying with Government. But in the event of a written
6 directive having been issued by the Government, full
7 information has to be given to Parliament within
8 fifteen sitting days.

9 If it is decided that there has to be legislation
10 of this character in Canada, it seems to me that the
11 Australian formula is the least harmful, although I
12 would prefer a stipulation that directives to the
13 Bank had to take the form of Orders in Council and that
14 Government had to make its actions known to the public
15 at once rather than after what might be a delay of
16 months.

17 I am certain what central bank Governors would
18 feel their course of action should be after receiving
19 instructions to follow a policy which they had strongly
20 opposed. Legally, they and their Boards are absolved
21 from responsibility. So far as I am aware, there are
22 not yet any precedents, so the question must go
23 unanswered.

24 Before finishing my remarks on this subject,
25 I want to make a brief reference to the powers of the
26 Board of Directors of Bank of Canada. Under the Act
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(excluding the Deputy Minister of Finance) agrees, their decision is binding, subject to the veto of the Governor. The Governor in Council has power to override such a veto. It follows that, if there are unresolved differences of opinion between Bank and Government on matters of Policy, the Bank of Canada view, if it is to prevail even temporarily, must be supported not only by the Governor but by a majority of the Directors appointed by Government.

May I turn now to the statutory provisions covering relations between Bank of Canada and the provinces.

Section 20, sub-section (1) of the Bank of Canada Act reads as follows:

"The Bank shall act as fiscal agent of the Government of Canada without charge and, subject to the provisions of this Act, by agreement, may also act as banker or fiscal agent of the government of any province."

During the first twenty years of the Bank of Canada's existence, no Province requested the Bank to act as its banker or fiscal agent. I do not know what, if any, discussions may have taken place between the Bank and Provincial Governments since the end of 1954. In any event, the Bank is not at the present time functioning as banker or fiscal agent for a province under the terms of Section 20, sub-section (1) of the Act.

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1 various provinces. The view expressed by the Bank was
2 that no good purpose would be served unless a provincial
3 government felt that it desired a continuing close
4 collaboration with the Bank and in that connection was
5 prepared to keep the Bank fully informed at all times
6 in regard to its financial position and requirements,
7 present and prospective. The Bank indicated that
8 it would undoubtedly be prepared at appropriate times
9 to make temporary advances to provinces or to purchase
10 provincial securities, provided that the size of such
11 operations did not clash with the Bank's primary
12 responsibility for regulating credit and currency in
13 the best interests of the economic life of the nation.
14 During the discussions, however, it was indicated that
15 a province should not feel that the main value of the
16 connection lay in the possibility of securing financing
17 from the central bank.

18 I think it is not surprising that no provincial
19 government - at least up to 1954 - asked the Bank to
20 become its banker or fiscal agent. An intimate
21 relationship with a creature of the Federal Government
22 might at times be a political liability for a province.
23 My impression was that no provincial Premier would take
24 this risk, if the principal benefit to be expected was
25 the receipt of advice. Advice, particularly good
26 advice, can be embarrassing.

27 From the point of view of Bank of Canada also
28 the relationship would be a most difficult one. It
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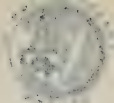
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1 policies of the Federal Government. If the Bank was
2 involved in responsibility, directly and indirectly,
3 for the financial activities and credit requirements
4 of provinces, its problems would be such that I do not
5 believe it could render good service to all its
6 governmental clients. Inevitably the primary concerns
7 of the Bank must be the credit needs of the country
8 as a whole and the fiscal problems of the Federal
9 Government. Conflicts of interest might well arise,
10 and provincial governments would be aggrieved if they
11 came to feel that their interests were subordinated
12 to other considerations, no matter how important
13 these considerations were, from the point of view of
14 the Bank and the Federal Government.

15 There is still another possible source of
16 difficulty and embarrassment. Under Section 20,
17 sub-section (1) of the Act, the Bank must act as
18 fiscal agent of the Government of Canada. It has no
19 choice. But the performance of this function for a
20 province is a matter of agreement. If the Bank felt
21 that a province's financial policies were leading it
22 into serious trouble, and its advice in this connection
23 was rejected, it could not in good conscience continue
24 to be publicly associated with the province in
25 question as banker and fiscal agent. I think that
26 in such circumstances the Bank would have to terminate
27 the arrangement, an action which would have a bad
28 effect on the province's credit standing, at least
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7 They also believed that it would be good for
8 provincial governments, if they so desired, to receive
9 objective and impartial financial advice from a
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18 I should imagine that any competent economist
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Nethercut & Young

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1 difficulties and misunderstandings. If the authority
2 granted in that Section is not likely to serve any
3 practical purpose in the future, the Commission may
4 wish to consider the advisability of recommending a
5 change in the Act.

